



San Joaquin Valley
AIR POLLUTION CONTROL DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2012



Prepared By
Finance Department

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San Joaquin Valley Unified Air Pollution Control District

Comprehensive Annual Financial Report
Year Ended June 30, 2012

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INTRODUCTORY SECTION

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San Joaquin Valley Unified Air Pollution Control District

December 21, 2012

Governing Board
San Joaquin Valley Unified Air Pollution Control District

This Comprehensive Annual Financial Report (CAFR) of the San Joaquin Valley Unified Air Pollution Control District (District) is for the fiscal year ended June 30, 2012. Responsibility for the accuracy of the data, the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position, changes in financial position, and all disclosures necessary to enable the reader to gain an understanding of the District's financial activities.

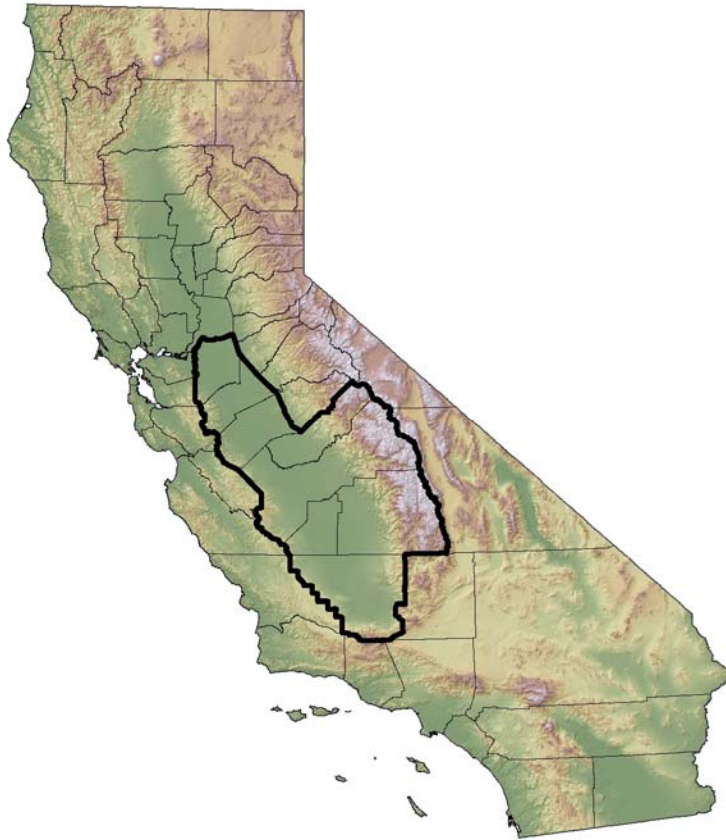
This report is divided into three major sections: Introductory Section, Financial Section and Statistical Section. The Introductory Section includes the District's organizational structure and a list of principal officials as well as this Letter of Transmittal, which provides general comments on activities of interest to the reader. The Financial Section is comprised of the Independent Auditor's Report, Management's Discussion and Analysis, the Basic Financial Statements, which include the Notes to the Basic Financial Statements, and the Budgetary Comparison Schedule for the General Fund. The Statistical Section provides important historical and trend information about the District.

ABOUT THE SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

Background

The San Joaquin Valley Unified Air Pollution Control District (District) began operation on March 20, 1991 as a unified air pollution control district operating under the provisions of Sections 40150 through 40162 of the California Health and Safety Code. The District is a regional agency responsible for air quality management in the eight counties in the San Joaquin Valley Air Basin: San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings, Tulare and the Valley portion of Kern. The San Joaquin Valley Air Basin is the largest air basin in California and covers about 25,000 square miles (see map next page). The San Joaquin Valley is one of California's fastest growing population areas, with a total estimated population of about 3.9 million residents in the year 2012. Major urban centers exist in Stockton, Modesto, Fresno, Visalia, and Bakersfield.

San Joaquin Valley Unified Air Pollution Control District Jurisdictional Boundaries



The District works with local, state and federal government agencies, the business community and the residents of the Valley to reduce emissions that create harmful air quality conditions.

The District is governed by a 15-member Board that consists of one representative from each of the Board of Supervisors of all eight counties, five Council Members from Valley cities and two governor-appointed public members. These locally elected and appointed officials ensure that the implementation of state and federal air pollution mandates in the Valley are tailored to local conditions and responsive to local needs.

Achieving Cleaner Air in the San Joaquin Valley

Air Quality continues to improve in the San Joaquin Valley, and data from the summer of 2012 shows it was one of the cleanest summer ozone seasons on record. Wintertime air quality has also improved; the number of days and the magnitude by which the Valley has exceeded health-based PM2.5 standards has been reduced dramatically in recent years. Multi-billion dollar investments in emissions controls by Valley businesses, air friendly policies put forward by local

officials and community leaders, and the recent positive, cooperative response to the District's public outreach by Valley residents have all contributed to these improvements. Despite these major improvements, the Valley still faces significant challenges in meeting the newest air quality standards, and cleaner air will still require continued focus on all sources of emissions and participation by all government sectors, business entities, and individuals throughout the Valley.

The District has the primary authority in regulating stationary sources of pollution, such as factories, businesses, and industries. Although state and federal laws preempt the District from setting new tailpipe standards for mobile sources of emissions, the District implements indirect source regulations and incentive-based programs to reduce emissions from on-road and off-road sources of air pollution. The primary authority to regulate emissions from mobile sources of air pollution, such as cars and trucks, lies with the state and federal government. In achieving clean air goals, the District partners with a number of other governmental agencies:

- The **federal government**, primarily through the Environmental Protection Agency (EPA), sets health-based standards for air pollutants. EPA also oversees state and local actions to improve air quality.
- The **state government**, through the California Air Resources Board (ARB) and the Bureau of Automotive Repair, develops programs to reduce pollution from vehicles and consumer products. The State also oversees the actions of local air districts and city and county agencies.
- **County and city governments** are responsible for land-use planning to address issues such as "urban sprawl" as well as transportation and mass transit planning.

Progress in cleaning our air is often measured in relation to the health-based standards established by the federal government. The State of California also establishes ambient air quality standards that serve as ultimate goals in achieving clean air.

In a regulatory sense, the road to cleaner air can be described as follows:

- EPA establishes the health standards.
- EPA identifies the regions that do not meet the new standards.
- EPA establishes deadlines for meeting the new standards and for submitting plans to get there.
- In collaboration with ARB, the District develops air quality plans outlining strategies needed to reduce emissions and meet the new standards.
- ARB forwards the plans for EPA approval after review, approval, and addition of state strategies.
- The District, ARB, and EPA adopt and implement plan commitments.
- The District provides routine updates and progress reports.

How the District Does Its Job

The Valley Air District is a public health agency whose mission is to improve the health and quality of life for all Valley residents through efficient, effective and entrepreneurial air quality-management strategies. Toward that end, the District conducts the following activities:

- Develops and adopts **air quality plans** outlining strategies needed to reduce emissions.
- Develops, adopts and implements **rules and regulations** to reduce emissions.
- Organizes and promotes efforts to achieve early attainment through the **Fast Track Strategy**.
- Administers an efficient and comprehensive **permitting** system for stationary sources and offers meaningful business assistance to the regulated community in meeting applicable regulations.
- Maintains and updates an **inventory of emissions** from various Valley sources on an ongoing basis.
- Maintains an active and effective **enforcement** program.
- Administers **voluntary incentive grants** offering financial assistance to reduce air pollution.
- Operates an extensive **air monitoring** network to measure air pollutants throughout the Valley and track air quality improvements.
- Conducts comprehensive **public education and outreach**.
- Continues to set high standards in **legal activities**.
- Collaborates with **state and local agencies**.

MAJOR ACCOMPLISHMENTS FOR 2011-12

Air Quality Plans

The District has written several air quality plans (State Implementation Plans, or SIPs) over the years that serve as road maps for the new measures needed for the Valley to reach federal air quality standards. The District's air quality plans include emissions inventories showing the sources of air pollutants, evaluations of how well different control methods have worked, and a strategy for how air pollution will be further reduced. The plans also use computer modeling to estimate future levels of pollution and to ensure that the Valley will meet air quality goals on time. During 2011-12, EPA finalized approval of two recent District plans: the 2007 Ozone Plan and 2008 PM2.5 Plan. District and State Air Resources Board regulations adopted and implemented under these plans are achieving significant emissions reductions over the coming years, and will contribute to attaining both existing and upcoming federal standards. During 2011-12 the District continued its analysis to prepare for the 2012 PM2.5 Attainment Plan for the 2006 federal PM2.5 standard. The District presented the final 2012 PM2.5 Plan to the District Governing Board in December 2012. The plan was adopted and is currently being submitted to EPA through ARB.

Following adoption of the 2012 PM2.5 Plan, the District will begin implementing the adopted plan's commitments. The District will also begin preparing for upcoming attainment plans, including the plan for EPA's revoked 1-hour ozone standard (required by a recent Ninth Circuit Court decision), the plan for EPA's 2008 8-hour ozone standard (due to EPA in 2015), and the plan for the PM2.5 standard currently under EPA review (likely due to EPA in 2018). The District will also track EPA efforts to again revise the 8-hour ozone standard, with EPA's proposal expected in 2013.

Rules and Regulations

The Valley Air District continues its leadership in developing groundbreaking regulatory strategies to reduce emissions. Tough, innovative rules such as the District's rules for indirect source review, residential fireplaces, glass manufacturing and agricultural burning have set benchmarks for California and the nation. Of the 26 control measures in recent air-quality plans, the District has adopted all but one for residential furnaces, which is scheduled for adoption in 2014 to allow time for technology development. New rule commitments for future years will be considered in upcoming air-quality plans, including the 2012 PM2.5 Plan. The following rules and amendments highlighted fiscal 2011-12:

Organic Material Composting Operations (Rule 4566): This rule reduces VOC emissions from organic material composting operations. Adopting this first-of-its-kind rule required extensive research and stakeholder involvement. The District coordinated a multi-agency, \$200,000 composting field study to provide a thorough analysis and scientific justification behind proposed rule requirements. District staff conducted several composting facility site visits, technical workgroup meetings and public workshops with various stakeholders, including composting operators, State Air Resources Board, California Department of Resources Recycling and Recovery, agricultural groups, environmental advocates, other air districts, and city and county agencies. These combined efforts culminated in the rule's feasible, cost-effective measures, reducing VOC emissions by about 30 percent. Estimated reductions: 19.2 tons per day of VOC.

Internal Combustion Engines (Rule 4702): This rule amendment strengthened the current NOx limits, added SOx requirements, expanded the rule applicability to engines rated between 25 to 50 bhp, and provided the option to pay an annual fee to achieve equivalent NOx emission reductions through the District's grant program. Estimated reductions: 1.43 tons per day of NOx.

Amendments to the following rules in 2011 did not achieve additional emissions reductions, but ensure rules satisfy Clean Air Act requirements for reasonably available control technology (RACT) and allow for full EPA approval:

- **Polyester Resin Operations (Rule 4684):** Amendments added new specialty coating categories, reduced some VOC limits and raised control-system effectiveness limits to match existing limits in other air districts.
- **Exemptions (Rule 2020):** Amendments clearly identified the specific exempted sources/equipment rather than citing the California Health and Safety Code.
- **Crude Oil Production Sumps (Rule 4402):** Amendments prohibited first stage sumps, updated test methods, clarified existing requirements, and added new requirements for recordkeeping and for use of emergency pits.
- **Solid Fuel Fired Boilers, Steam Generators and Process Heaters (Rule 4352):** Amendments reduced NOx emission limits, added definitions and removed outdated sections for rule clarity.
- **Wastewater Separators (Rule 4625):** Amendments added new definitions for improved clarity, increased required vapor control efficiency, removed all exemptions, updated test methods and included new recordkeeping and inspection requirements.
- **Polystyrene, Polyethylene, and Polypropylene Products Manufacturing (Rule 4682):** Amendments separated the VOC limits for foam extrusion facilities and expandable polystyrene (EPS) foam facilities and added a daily VOC limit for EPS facilities.

	Plan Commitments	Adopted Rules	Assessment
NOx	Reduce emissions by 0 tons per day	Adopted rules reduce emissions by 1.43 tons per day	Reductions are surplus
VOC	Reduce emissions by 10 tons per day	Adopted rules reduce emissions by 19.2 tons per day	Reductions are 92 percent above target
<i>No SOx or PM2.5 commitment</i>			

Permitting

The District has the responsibility for issuing or denying permits, registrations and plan approvals for more than 30,000 non-mobile sources of air contaminants, and for tracking and assessing the impacts of these facilities' annual pollutant emissions. During this reporting period, permitting activities included:

- 7,055 Authority to Construct permits issued
- 227 new Permits to Operate issued
- 225 Permit-Exempt Equipment Registrations issued
- 238 new Title V permits issued to 13 facilities
- 8,784 Title V permit renewals issued to 82 facilities
- 1,313 Title V permit modifications
- 680 Conservation Management Practices plans issued
- 232 Emission Reduction Credit certificates issued or transferred
- 903 toxic air contaminant risk-management reviews performed

- 1820 annual emissions inventory statements and surveys processed
- 1367 California Environmental Quality Act review requests processed
- 695 CEQA comment letters and 47 CEQA documents prepared
- 214 Indirect Source Review applications processed
- 333 eTRIP plans

Enforcement

The District maintains an active and effective enforcement program to assure real and continued reductions in emissions. The District inspects sources of air pollution, including all facilities with permits issued by the District. When sources are found in violation of District rules and regulations, citations are issued and monetary fines are levied. For 2011-12:

- 31,090 units inspected
- 3,239 public complaints investigated
- 1,993 open burn sites inspected
- 3,792 incentive funding units (i.e., trucks, engines) inspected
- 1,112 asbestos projects reviewed and inspected

Voluntary Incentive Grants

To attain the current health-based air quality standards for ozone, the Valley requires at least 75% in NO_x reductions from the 2005 level. The District, however, has limited legal authority to achieve these emission reductions, as mobile sources comprise 80% of the Valley's NO_x emission inventory. Thus, District regulations alone will not bring the Valley into attainment of federal air quality standards. Voluntary incentive programs play a critical role in achieving and accelerating the reductions required for the Valley's attainment.

Since inception, the District has awarded more than \$480 million in incentives, resulting in more than 95,000 tons of lifetime emission reductions. During the 2011-12 fiscal year, the District executed more than 3,900 agreements for more than \$99 million. These projects are expected to reduce more than 10,000 tons of lifetime emissions.

The District's incentive program has become a model for grant programs throughout the State. In recent state audits, the District was noted for its efficient, robust and effective use of incentive grant funds in reducing air pollution. The District funds the following types of projects:

- Diesel agriculture irrigation pump replacements
- Emerging technology demonstration projects
- Electric forklift purchases
- Bicycle path construction
- On-road and off-road vehicle engine replacements, engine retrofit and vehicle replacements
- Wood-stove replacements

- School bus replacements and retrofits
- Gross-polluting vehicle crushing and replacements
- New, clean vehicle purchases
- Transit pass subsidies
- Locomotive replacements
- E-mobility equipment
- Vanpools
- Lawn and garden equipment
- Zero-emission agricultural utility terrain vehicles
- Alternate fuel mechanic training

During the past year, the District was audited by the State Air Resources Board on several programs including the Carl Moyer Program, Proposition 1B: Goods Movement Incentive Program, Lower Emission School Bus Program, AB 923 program and AB 118 program. The District again received high marks for efficiency and accountability in our administration of these programs. In fact, District incentive program policies and procedures are often used as examples of “best practices” that other programs throughout the State can emulate, and the District has been awarded administration of grant funds for other air agencies as a result.

Comprehensive Public Education and Outreach

The Valley Air District’s Outreach and Communications Department continues to set the standard for innovative, effective and efficient outreach strategies and campaigns. Operating with a budget much less than other air management agencies statewide, the District’s outreach department nonetheless is just as effective in conveying critical public information, policy and air quality news.

The District’s Outreach and Communications team, a highly skilled group of communications professionals with expertise in public relations, media, graphics and web design, audio-video production and event organization, continues to expand its activities and District messaging in the Valley air basin through programs tailored to each sector in the broader community. The District continues to spearhead many important seasonal campaigns, including:

- **Drive Clean:** Electric vehicle workshops were hosted in partnership with the California Center for Sustainable Energy in Fresno and Modesto. The workshops featured presentations by District and CCSE staff, as well as representatives of utility providers and owners’ panels, about the technology behind the newest plug-in vehicles, generous incentives for their purchase and the experience of driving them. Attendees were given the opportunity to investigate a variety of electric vehicles on site, as well.
- **The Lawn Care, Landscaping and Air Quality Conference** in downtown Fresno was directed to landscaping professionals and lawn-care equipment developers. Topics included emissions from landscaping and

air quality impacts, technological options for reduced emissions, and options for reducing emissions from the lawn-care sector. The District also announced a new pilot program for testing emission-free lawn-care equipment in the field.

- **Check Before You Burn:** This annual multimedia, multilingual outreach campaign runs from November through February, and is credited with the Valley achieving unprecedented improvements in wintertime air quality.

FACTORS AFFECTING FINANCIAL CONDITION

The District's operations are primarily supported by permit and auto registration fees, as well as state and federal grant revenue. In addition, the District receives penalties, settlements, interest and other miscellaneous revenues.

The enforcement of a \$29 million federal penalty for 1-hour ozone violations resulted in the District's Governing Board devising a solution that minimized individual impact to Valley residents and ensured these funds would return to the Valley for investment in clean-air projects. During 2011, the District's Governing Board adopted the federally mandated ozone nonattainment fee (Rule 3170). In addition, the Board approved an increase of \$12 to the DMV fees permitted by Assembly Bill 2522 passed in 2008. These funds are returned to Valley residents and businesses in the form of grants and incentives to assist in reducing emissions.

During this period, operating revenues exceeded operating expenditures due to receipt of higher than expected Settlement fees, as well as receipt of Rule 3170 fees, and Advanced Emission Reduction (AERO) fees received close to fiscal year-end and not spent by the end of the year.

While the District's permit fee and DMV revenues are relatively stable, the current state of the economy continues to dampen any growth in these fees. Operating expenditures, however, continue to grow primarily due to employee costs, retirement benefit costs in particular. In an effort to slow escalating pension costs, the District negotiated a new MOU with its employees which added a second retirement tier for new employees hired on or after July 31, 2012. These employees pay 100% of the normal member contribution rate for retirement.

Automation and reorganization within the District's operational programs and grant programs has allowed for the District to assume significant amounts of additional workload without increasing staffing levels. For example, the District enhanced its Document Management System, its Grants Management System, workflow processes, and increased its use of the internet and intranet in doing business during 2011-12.

The District continues to maintain a reasonable amount of unrestricted fund balance, to have low long-term debt, and has financial and budgetary policies in place that will help ensure ongoing fiscal soundness as the District works to achieve its mission to improve the Valley's air.

FINANCIAL CONTROLS

Annual and Independent Audit

It is the policy of the District to have an annual audit performed by an independent certified public accounting firm appointed by the District's Governing Board. Price Paige & Company Accountancy Corporation conducted the independent audit of the District's financial statements for the fiscal year ended June 30, 2012. The auditor's unqualified opinion on the basic financial statements is included in the Financial Section of this report.

As part of the District's annual audit engagement, the auditors review the District's internal control structure, as well as compliance with applicable laws and regulations. The results of the District's annual audit for the fiscal year ended June 30, 2012, provided no instances of material weaknesses in connection with the internal control structure or violations of applicable laws and regulations.

As recipients of federal and state financial resources, the District is required to undergo an annual single audit. The information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and recommendations and auditor's reports on the internal control structure and compliance with applicable laws and regulations are included in a separately issued report.

Internal Accounting Controls

Management of the District is responsible for establishing, maintaining and evaluating the District's accounting system with an emphasis on the adequacy of an internal control structure. The internal accounting controls are designed to: ensure that the assets of the government are protected against loss, theft or misuse; ensure the reliability of adequate accounting data for the preparation of financial statements in conformity with generally accepted accounting principles and; provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that the costs of control should not exceed the benefits likely to be derived from it and that the evaluation of costs and benefits require estimates and judgment be made by management.

The District's internal control evaluations occur within the above framework, which ensures adequate safeguard of the District's assets and reasonable assurance of proper recording of financial transactions.

Budgetary Control

In accordance with the provisions of the State Health and Safety Code Section 40131, the District's Formation Agreement, and the District's Administrative Code, the District prepares and legally adopts a final balanced budget on or before June 30 of each fiscal year. The final adopted budget is available for review on the District's Website, www.valleyair.org.

Budgetary control is exercised at the object level. All amendments or transfers of appropriations between these levels are authorized by the Executive Director/APCO and must be approved by the District Governing Board. Supplemental appropriations financed by unanticipated revenues also must be approved by the Board.

Expenditures, except for fixed assets, are controlled at the object level for all program budgets within the District. Fixed assets are controlled at the sub-object level. There are no excess expenditures over the related appropriations in any object. Budgeted amounts are reported as amended.

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes. Encumbrance accounting is utilized for budgetary control and accountability and to facilitate effective cash planning and control.

Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are reported as assigned fund balance for subsequent year expenditures.

The accounting principles applied in developing budgetary expenditures data differ from the amount reported on the financial statements in conformity with generally accepted accounting principles. Reconciliation of the differences is presented in the Required Supplementary Information section of this report.

OTHER INFORMATION

Cash Management

The County of Fresno provides treasury management services to the District. District funds not for immediate use are invested as part of Fresno County's common investment pool. California Statutes and the County's Investment Policy authorize investments in U.S. Treasury and agency obligations, bankers' acceptances, commercial paper, certificates of deposit, repurchase agreements, medium-term notes, the State's Local Agency Investment Fund, mutual funds, and mortgage-backed securities. Investments are restricted such that the average weighted maturity of the Pool does not exceed 550 days or 1½ years unless economic trends or market timing indicate such investments are beneficial. A Treasury Oversight Committee is responsible for regulatory

oversight of the investment pool. The District's portfolio at June 30, 2012 is \$160.3 million.

The primary objective of the District's investment policy is to ensure money in the Treasury not required for the immediate needs of the District is prudently invested to preserve principal and provide necessary liquidity, while earning a market rate of return.

Risk Management

The District participates in a joint powers authority, the Special District Risk Management Authority (SDRMA), whose purpose is to develop and fund programs of excess insurance for comprehensive liability, and property and employee blanket bonds for its member districts.

The District has coverage against claims up to a limit of \$10,000,000 for comprehensive general and auto liability and public official's liability, and up to \$400,000 for public employees blanket bond and for the replacement cost of property.

Acknowledgments

The dedicated services of the Finance and Accounting Managers, accountants and other staff of the Finance Department made the preparation of our comprehensive annual financial report possible.

Recognition is also given to the Governing Board for their leadership and support and to all employees of the District who continue to promote technology and improve operations to accomplish the District's mission of protecting public health from air pollution in an efficient and cost effective manner.

Respectfully submitted,



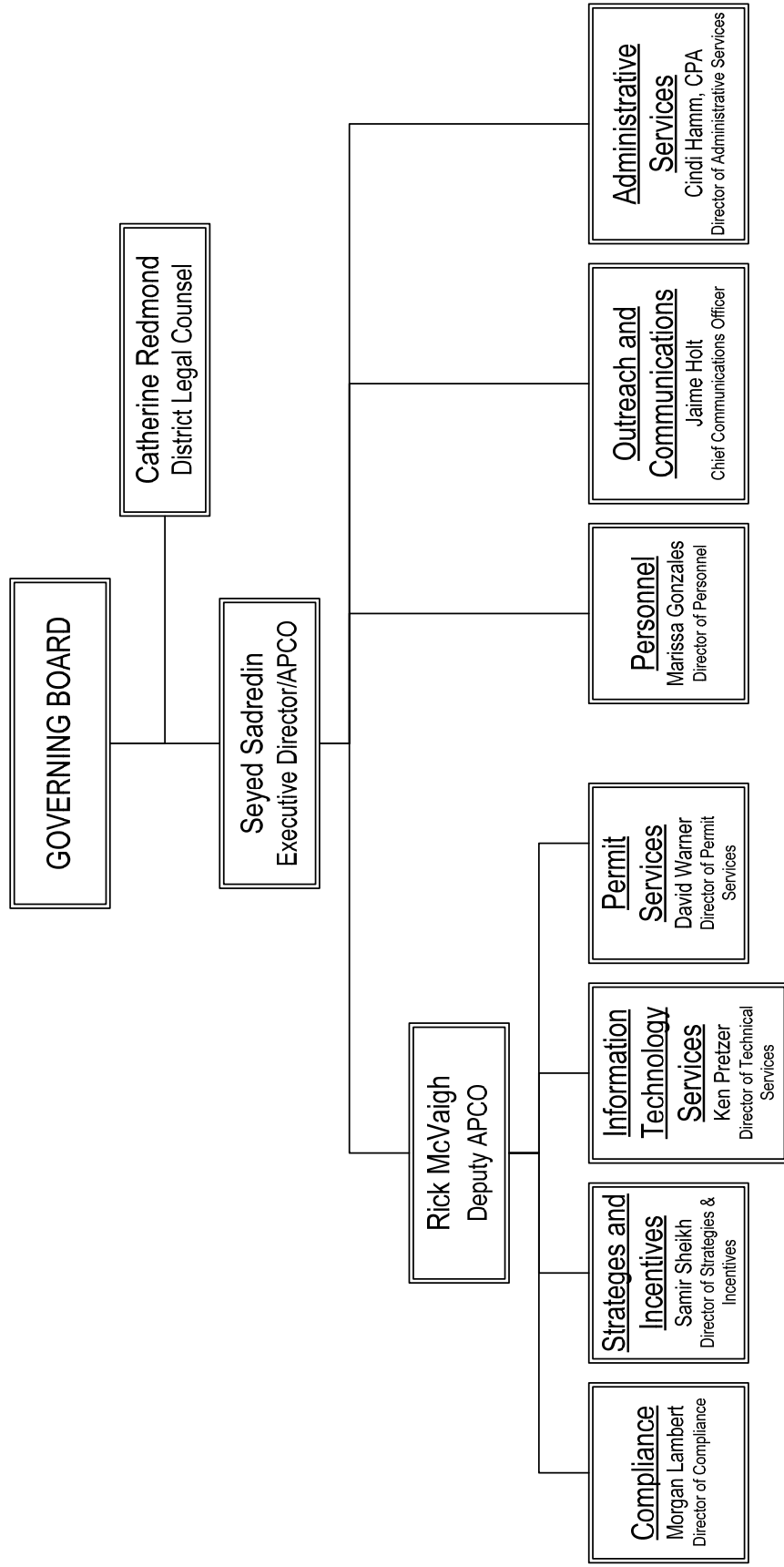
Seyed Sadredin
Executive Director / APCO



Cindi Hamm, C.P.A.
Director of Administrative Services

San Joaquin Valley Unified Air Pollution Control District

June 30, 2012



San Joaquin Valley Unified Air Pollution Control District

Governing Board

June 30, 2012

William O'Brien, Chair
Supervisor, Stanislaus County

Skip Barwick, Vice Chair

Vice Mayor, City of Tulare

J. Steven Worthley

Supervisor, Tulare County

Hub Walsh

Supervisor, Merced County

Tony Barba

Supervisor, Kings County

Alexander C. Sherriffs, M.D.

Appointed by Governor

Judith G. Case

Supervisor, Fresno County

Oliver L. Baines III

Councilmember, City of Fresno

Ronn Dominici

Supervisor, Madera County

Sally Bomprezzi

Councilmember, City of Madera

Henry J. Forman, Ph.D.

Appointed by Governor

Harold Hanson

Councilmember, City of Bakersfield

Leroy Ornellas

Supervisor, San Joaquin County

Raymond A. Watson

Supervisor, Kern County

Chris Vierra

Mayor, City of Ceres

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Executive Director - Air Pollution Control Officer

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board
San Joaquin Valley Unified Air
Pollution Control District
Fresno, California

We have audited the accompanying financial statements of the governmental activities and General fund of the San Joaquin Valley Unified Air Pollution Control District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and General fund of the District, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 17 and on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers

it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Price Pange & Company

Clovis, California
February 5, 2013

San Joaquin Valley Unified Air Pollution Control District

Management's Discussion and Analysis June 30, 2012

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the transmittal letter and the basic financial statements.

A. Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$188.3 million (*net assets*). Of this amount, \$144.3 million is restricted for specific purposes, \$9.6 million is invested in capital assets (net of related debt), and \$34.3 million (*unrestricted net assets*) may be used to finance the District's day-to-day operations without constraints established by legal requirements.
- The District's total net assets increased \$31.1 million as compared to the prior fiscal year. The majority of this increase was related to receipt of \$12 DMV (AB2522) fees, Proposition 1B grant funding, and Advanced Emission Reduction (AERO) fees received close to fiscal year-end and not spent by the end of the year.
- The District's Governmental Fund reported a total fund balance of \$181.5 million at year-end, a \$31.1 million increase as compared to the prior year-end balance. Approximately \$144.3 million of this balance is contractually or legally restricted for incentive programs; \$22.6 million represents fund balance assigned to specific purposes such as community incentive programs, and encumbrances. This District reported \$14.3 million unassigned fund balance at the end of fiscal year 2011-12.
- Total District governmental fund revenues exceeded total District expenditures by \$31.1 million. The majority of this increase was related to receipt of AB2522 revenue, Proposition 1B grant funding, and AERO fees received close to fiscal year-end and not spent by the end of the year.

B. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) Government-wide Financial Statements, 2) Fund Financial

Management's Discussion and Analysis

Statements, and 3) Notes to the Basic Financial Statements. The District's report also includes required supplementary information to the Basic Financial Statements. In general, the purpose of financial reporting is to provide external parties that read the financial statements with information that will help them make decisions or draw conclusions about an entity. In order to address the needs of as many parties as reasonably possible, the District, in accordance with required reporting standards, presents government-wide financial statements and fund financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to commercial enterprises or a private-sector business. These financial statements include the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets reports all assets held and liabilities owed by the District on a full accrual basis. The difference between the two is reported as *net assets*. This difference is comparable to total stockholders' equity presented by a commercial enterprise. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities reports the net cost of the District's activities by program and is prepared on the full accrual basis. Revenues and expenses are recognized as earned and incurred even though they may not have been received or paid in cash.

The focus of the Statement of Activities is on the cost of various program activities performed by the District. The Statement begins with a column that identifies the cost of each of the District's major programs. Another set of columns identifies the revenues that are specifically related to these activities. The difference between the expenses and the revenues related to specific program activities represents the net cost or revenue of the program. This determines the amount, if any, drawn from general revenues by each program activity.

The District's government-wide financial statements are presented on pages 18 to 19 of this report.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole.

Management's Discussion and Analysis

Governmental Fund

The fund financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. These are prepared on the modified accrual basis of accounting. See Note 1, section (B), which explains the modified accrual basis of accounting. In contrast, the government-wide financial statements are prepared on the full accrual basis.

The District's Balance Sheet is presented on page 20 and Statement of Revenues, Expenditures, and Changes in Fund Balance is presented on page 22 of this report.

The focus of the fund financial statements is narrower than that of the government-wide financial statements. Since different accounting bases are used to prepare the above statements, a reconciliation is required to facilitate the comparison between the fund statements and the government-wide statements. The reconciliation of the total fund balance between these two statements can be found on page 21 of this report.

The reconciliation of the total changes in fund balance for all governmental funds to the change in net assets can be found on page 23 of this report.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 24 to 40 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the budgetary comparison schedule and budgetary reconciliation. The Notes to the Schedule of General Fund Budgeted and Actual Expenditures can be found on page 44 of this report. The Schedule of Funding Progress for the pension plan can be found on page 45.

C. Government-wide Financial Analysis

Our analysis focuses on the net assets and the changes in net assets of the District's governmental activities.

Management's Discussion and Analysis

The following schedule is a condensed Statement of Net Assets as of the year ended June 30, 2012, as compared to the prior fiscal year.

Statement of Net Assets (In Thousands)

	Fiscal Year 2011-12	Fiscal Year 2010-11	Increase (Decrease)	Percent Change
Current and Other Assets	\$ 186,754	\$ 151,967	\$ 34,787	22.9%
Capital Assets	9,985	10,129	(144)	-1.4%
Total Assets	<u>196,739</u>	<u>162,096</u>	<u>34,643</u>	<u>21.4%</u>
Current Liabilities	5,769	1,999	3,770	188.6%
Noncurrent Liabilities	<u>2,684</u>	<u>2,914</u>	<u>(230)</u>	<u>-7.9%</u>
Total Liabilities	<u>8,453</u>	<u>4,913</u>	<u>3,540</u>	<u>72.1%</u>
Net Assets:				
Invested in Capital Assets, net of related debt	9,622	9,421	201	2.1%
Restricted for Special Projects/Programs	144,317	121,765	22,552	18.5%
Unrestricted	<u>34,347</u>	<u>25,997</u>	<u>8,350</u>	<u>32.1%</u>
Total Net Assets	<u><u>\$ 188,286</u></u>	<u><u>\$ 157,183</u></u>	<u><u>\$ 31,103</u></u>	<u><u>19.8%</u></u>

The District's total Net Assets increased \$31,102,828 from the prior fiscal year. The majority of this increase was related to receipt of AB2522 revenue, Proposition 1B grant funding, and AERO fees received close to fiscal year-end but not spent by the end of the year.

The District's total liabilities increased \$3,540,379 from the prior fiscal year. Current Liabilities increased \$3,769,669. This was due to an increased amount of invoices received and processed after June 30th for services or supplies provided during fiscal year 2011-12. The majority of this amount was related to CEC Block Grant invoices. These invoices were received prior to June 30th but due to the nature of this grant took longer to review and process. Noncurrent Liabilities decreased by \$229,290 due to payment of principal on capital leases, offset in part, by increased compensated absences payable at year end.

Of the District's total net assets, 76.7% are legally or contractually restricted to expenditures for incentives and grants, and 18.2% are unrestricted and may be used to meet the District's ongoing obligations without legal constraint. Additionally 5.1% are

Management's Discussion and Analysis

net assets in the form of capital assets (e.g. land, buildings, equipment, and vehicles), some of which have been financed by capital leases. Consequently, these assets are not available for future spending.

The following is a condensed schedule of Changes in Net Assets for the fiscal year ended June 30, 2012, as compared to the prior year.

Changes in Net Assets				
(In Thousands)				
	<u>Fiscal Year</u>	<u>Fiscal Year</u>	<u>Increase</u>	<u>Percent</u>
	<u>2011-12</u>	<u>2010-11</u>	<u>(Decrease)</u>	<u>Change</u>
Revenues:				
Program Revenues:				
Fees and Charges - Stationary Sources	\$ 23,969	\$ 26,861	\$ (2,892)	-10.8%
Fees and Charges - Mobile Sources	12,963	11,005	1,958	17.8%
Operating Grants	2,201	2,123	78	3.7%
Restricted Special Revenue Sources	116,154	55,524	60,630	109.2%
General Revenues:				
State Subvention - Not Restricted	917	901	16	1.8%
Interest - Not Restricted	552	392	160	40.8%
Penalties/Settlements	5,715	6,151	(436)	-7.1%
Miscellaneous Revenue	175	223	(48)	-21.5%
Total Revenues	<u>162,646</u>	<u>103,180</u>	<u>59,466</u>	<u>57.6%</u>
Expenses:				
Permitting	14,170	13,836	334	2.4%
Enforcement / Air Monitoring	11,781	11,063	718	6.5%
Agricultural Burning	330	1,001	(671)	-67.0%
Plan and Rule Development	1,696	2,054	(358)	-17.4%
Mobile Sources	3,778	3,399	379	11.2%
Outreach and Communications	2,216	2,252	(36)	-1.6%
Air Quality Analysis	3,336	3,023	313	10.4%
Restricted for Grants and Other Uses	94,236	60,728	33,508	55.2%
Total Expenses	<u>131,543</u>	<u>97,356</u>	<u>34,187</u>	<u>35.1%</u>
Increase (Decrease) in Net Assets	31,103	5,824	25,279	434.0%
Net Assets - Beginning	<u>157,183</u>	<u>151,359</u>	<u>5,824</u>	<u>3.8%</u>
Net Assets - Ending	<u>\$ 188,286</u>	<u>\$ 157,183</u>	<u>\$ 31,103</u>	<u>19.8%</u>

Governmental Activities

The objective of the Statement of Activities is to report the full cost of providing government services for the year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws from the general revenues of the District.

Management's Discussion and Analysis

The Statement of Activities presents information showing how the District's net assets changed during the year. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

Fees, grants, state subvention, penalties, and settlements predominantly support the governmental functions of the District. The primary governmental activities of the District include the following: Permit Services, Enforcement / Air Monitoring, Agricultural Burning, Plan and Rule Development, Mobile Source, Outreach and Communications, Air Quality Analysis, and Grants and Other Special Uses. The following is a schedule of Revenues by Major Source for the fiscal year ended June 30, 2012, as compared to the prior year.

Revenues by Major Source Governmental Activities (In Thousands)

	Fiscal Year 2011-12	Fiscal Year 2010-11	Increase (Decrease)
Stationary Sources	\$ 23,969	\$ 26,861	\$ (2,892)
Mobile Sources	12,963	11,005	1,958
Operating Grants	2,201	2,123	78
General Revenues *	7,359	7,667	(308)
Restricted Special Revenue Sources	116,154	55,524	60,630
	\$ 162,646	\$ 103,180	\$ 59,466

* Includes State Subvention, Interest, Penalties and Settlements, and other Miscellaneous Revenues that are not restricted to specific programs.

Following are explanations of the significant revenue variances from the prior fiscal year:

Stationary Source Revenue

- Stationary Source Revenue decreased \$2,892,343 compared to the prior fiscal year. An increase in permit revenue due to the collection of new Rule 3170 fees was offset by a decrease caused by changes in the allocation of District revenues between Stationary and Mobile Sources.

Mobile Source Revenue

- Mobile Source Revenue shows an increase of \$1,958,218 compared to the prior fiscal year. The majority of this increase was due to an updated allocation of Stationary and Mobile Source revenues.

Management's Discussion and Analysis

Operating Grant Revenue

- Operating Grant Revenue increased \$77,575 over the prior fiscal year. The major factor for this difference was receipt of one-time EPA 103 grant funding to enhance the District's Air Monitoring function.

	Fiscal Year 2011-12	Fiscal Year 2010-11	Increase (Decrease)
Grant Revenue			
EPA 105 Grant	\$ 1,961,266	\$ 1,977,285	\$ (16,019)
EPA 103 Grant	239,734	146,140	93,594
Total Grant Revenue	<u>\$ 2,201,000</u>	<u>\$ 2,123,425</u>	<u>\$ 77,575</u>

General Revenues

General Revenue decreased \$307,723 as compared to the prior fiscal year due to less Penalty and Settlement revenue being received.

Restricted Special Revenue Sources

- Restricted Special Revenue increased \$60,629,819 compared to the prior fiscal year. The table below details the major changes to the various incentive programs that make up this increase. Changes are due to the availability of and /or timing of the receipt of grant and other funding sources.

	Fiscal Year 2011-12	Fiscal Year 2010-11	Increase (Decrease)
Incentive Program			
DMV Surcharge Fees	\$ 34,227,873	\$ 8,204,024	\$ 26,023,849
Carl Moyer Program	10,614,446	12,336,537	(1,722,091)
Proposition 1B	58,175,976	1,249,054	56,926,922
Lower Emission School Bus Program	463,588	19,894,255	(19,430,667)
Federal Diesel Earmark Grant	1,935,261	5,365,049	(3,429,788)
CEC - EECBG - Energy Efficiency	3,735,339	-	3,735,339
Diesel Emission Reduction Act	1,790,110	6,556,067	(4,765,957)
Voluntary Emission Reduction	957,837	410,113	547,724
Ag Tractor Replacement Program	2,189,509	-	2,189,509
ISR Rule Mitigation Funds	1,065,065	712,641	352,424
Other Miscellaneous Incentives	998,673	796,118	202,555
Total	<u>\$ 116,153,677</u>	<u>\$ 55,523,858</u>	<u>\$ 60,629,819</u>

Management's Discussion and Analysis

Total District Expenses increased by \$34,187,413. The majority of this increase was related to grants and incentives paid to Valley residents and businesses who participated in various emission reduction programs. The following is a schedule of District expenses by activity for the fiscal year ending June 30, 2012 with a comparison of prior year expenditures.

Expenses by Activities			
Governmental Activities			
	Fiscal Year	Fiscal Year	Increase
	<u>2011-12</u>	<u>2010-11</u>	<u>(Decrease)</u>
Permitting	\$ 14,170,277	\$ 13,835,586	\$ 334,691
Enforcement / Air Monitoring	11,780,877	11,063,271	717,606
Agricultural Burning	330,116	1,000,541	(670,425)
Plan and Rule Development	1,696,327	2,054,340	(358,013)
Mobile Source	3,778,290	3,399,671	378,619
Outreach & Communications	2,215,619	2,251,876	(36,257)
Air Quality Analysis	<u>3,335,839</u>	<u>3,022,735</u>	<u>313,104</u>
Total Operating Expenses	37,307,345	36,628,020	679,325
Restricted for Grants and Special Uses	<u>94,235,828</u>	<u>60,727,740</u>	<u>33,508,088</u>
Total District Expenses	<u><u>\$ 131,543,173</u></u>	<u><u>\$ 97,355,760</u></u>	<u><u>\$ 34,187,413</u></u>

D. Financial Analysis of the District's General Fund

General Fund

As of the end of the fiscal year, the District's General Fund reported an ending fund balance of \$181,541,875, an increase of \$31,124,815 in comparison with the prior year. Approximately 80% of this fund balance, or \$144,317,055, is restricted for grants and incentives. The long-term contractual commitments related to these restricted programs involve multiple-year expenditures. The remainder of the fund balance also includes \$301,836 not in spendable form for items that are not expected to be converted to cash, such as prepaid expenses, and \$22,590,832 assigned to be used for Community Incentive programs, encumbrances and other assignments of Fund Balance listed in Note I on page 28 of this report.

At the end of the fiscal year, the District's Unassigned Fund Balance was \$14,332,152, an increase of \$1,221,340 compared with the prior year. The majority of this increase was related to receipt of Rule 3170 fees received close to fiscal year-end and not spent by the end of the year.

Management's Discussion and Analysis

Operating Revenues

- Total Operating Revenues decreased \$879,123 which was mainly due to decreases in Penalties, Settlements and fewer Administrative funds received during fiscal year 2011-12. Some of this decrease was offset by an increase in permit fee revenues due to receipt of new Rule 3170 fees.

Operating Expenditures

Total Operating Expenditures increased \$1,346,757 as compared to the prior fiscal year.

- Total Salaries and Benefits increased \$612,601 compared to the prior fiscal. An increase in retirement costs of \$369,504 and filling some prior year vacant positions were the major factors in this increase.
- Total Services and Supplies decreased \$266,451 from the prior fiscal year. This decrease was due to cost saving measures controlling the District operational costs.
- Total capital outlay increased \$1,000,607 as compared to the prior fiscal year. This increase was related to enhancements to Air Monitoring Equipment, a prior year delay in purchasing District fleet, and to an office carpeting project completed during this fiscal year. The table below details the major changes to the various fixed asset accounts that make up this increase.

Account Title	Fiscal Year 2011-12	Fiscal Year 2010-11	Increase (Decrease)
Computer Equipment	\$ 577,740	\$ 504,605	\$ 73,135
Telephone System	7,660	5,825	1,835
Automobiles	374,512	45,161	329,351
Office Improvements	313,235	53,378	259,857
Video Conferencing System	31,539	15,977	15,562
AMS Automation Project	69,212	-	69,212
Air Monitoring Station Equipment	584,781	246,871	337,910
Electronic Document Management Project	-	86,255	(86,255)
Total	<u>\$ 1,958,679</u>	<u>\$ 958,072</u>	<u>\$ 1,000,607</u>

Management's Discussion and Analysis

Non-Operating Revenues

- Non-Operating Revenues increased \$60,716,076 mainly due to receipt of additional Proposition 1B revenue from the State, and new \$12 DMV surcharge fees.

Non-Operating Expenditures

- Non-Operating Incentive Program expenditures increased \$33,508,088 compared to the prior fiscal year. This was mainly due to an increase in Lower Emission School Bus (LESB) Program expenditures. The District also processed and paid out an additional \$11,796,382 of Carl Moyer incentives compared to fiscal year 2010-11. The table below details the major changes to the various Incentive Programs that make up this increase.

Incentive Program Name	Fiscal Year 2011-12	Fiscal Year 2010-11	Increase (Decrease)
DMV Heavy-Duty Program	\$ 7,730,952	\$ 3,347,606	\$ 4,383,346
Carl Moyer Program	16,303,666	4,507,284	11,796,382
CEC - Energy Efficiency Block Grant	3,769,289	65,411	3,703,878
School Bus Retro/Replace Program	-	141,325	(141,325)
Peaker Plant Program	25,920	3,674	22,246
Air Shed - Ag Tractor Replacement	2,189,509	-	2,189,509
Voluntary Emission Reduction Agreements	802,293	290,200	512,093
ISR Rule Mitigation Program	2,187,622	428,331	1,759,291
Federal Diesel Earmark Grant	1,987,569	5,365,049	(3,377,480)
Proposition 1B Program	14,637,277	23,111,899	(8,474,622)
Lower Emission School Bus Program	41,170,100	15,832,687	25,337,413
Diesel Emission Reduction Act	1,790,109	6,556,067	(4,765,958)
Community Incentive Programs	540,130	537,270	2,860
Air Toxics	-	23,430	(23,430)
Misc. Incentive Grants	801,392	517,507	283,885
Hydraulic Hybrid Program	300,000	-	300,000
Total	<u>\$ 94,235,828</u>	<u>\$ 60,727,740</u>	<u>\$ 33,508,088</u>

E. Capital Assets

The District's capital assets are used for governmental activities. The book value was \$9,984,618 (net of accumulated depreciation of \$9,292,759) as of June 30, 2012. Capital assets include land, buildings and improvements, equipment for air monitoring stations, computer and office equipment, video conferencing equipment, and District vehicles.

Management's Discussion and Analysis

Additional information on capital assets can be found in the "Notes to the Basic Financial Statements" on page 36 of this report.

F. Current Year's Long-Term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$3,240,298 including the current portion due within one year of \$556,081. Of this amount, \$362,231 represents capital lease obligations on the telephone system and video teleconferencing system upgrade, for which the District is required to make debt service payments. Other long-term debt includes compensated absences of \$2,878,067, including the current portion due of \$193,850. Additional information on the District's long-term debt can be found in Note 4 and Note 9 under the Notes to the Basic Financial Statements section of this report.

G. Current Year's Budget

The District Budget is divided into two sections. The Operating Budget represents those expenditures that directly support the everyday operations of the District including administration of incentive programs. The Non-Operating Budget represents those expenditures for the emission reduction incentive programs administered by the District. In addition to funding provided by the District, various federal and state agencies provide funding for these programs in the form of grants or agreements. Listed below are the major factors that explain the change from the Adopted Budget to the final Adjusted Budget at year-end.

The original Operating Budget adopted in June 2011 was \$39,837,178. A \$1,714,537 adjustment to increase appropriations was made during 2011-12. The majority of this increase was for 2010-11 encumbrances that lapsed at the end of the year and needed to be re-budgeted. Under District budget policy, all prior unused appropriations lapse at year-end and are re-budgeted. Revenues unrealized as of the 2011-12 year-end are re-budgeted in 2012-13. Revenues already received, but unspent, are included in the 2012-13 budget as available Fund Balance.

The Adjusted Non-Operating Budget at June 30, 2012 was \$244,630,970, including \$850,000 appropriated for contingencies. This was an increase of \$25,882,670 over the originally adopted Non-Operating Budget. Listed below are the major budget additions made during the year:

- \$7,354,339 for additional Carl Moyer program revenue.
- \$2,767,500 for the Federal Air Shed - Ag Tractor Program.
- \$14,166,163 for the School Bus Program.

Management's Discussion and Analysis

Operating Budget

Revenues

Actual Operating Revenues at June 30, 2012 were \$46,519,140, as compared to the final Adjusted Budget of \$46,276,500 a positive variance of \$242,640. Lower than expected Rule 3170 fees were offset by higher than estimated Settlement and Penalty fees during 2011-12.

Expenditures

Actual Operating Expenditures at June 30, 2012 were \$36,834,939 as compared to the final Adjusted Budget of \$41,551,715 a positive variance of \$4,716,776.

Salaries and Benefits

Actual Salary and Benefit expenditures at year-end were \$30,335,317 as compared to the final Adjusted Budget of \$30,842,451, a positive variance of \$507,134. Salary and benefit savings on vacant positions during the year were the major factor contributing to the positive variance.

Services and Supplies

Actual Services and Supplies expenditures at year-end were \$4,435,358 as compared to the final Adjusted Budget of \$7,074,179, a positive variance of \$2,638,821. Of this amount, \$1,465,160 was encumbered and re-budgeted after year-end. Listed in the table below are the expenditures that make up the major variances in the Services and Supplies accounts.

	Final Adjusted <u>Budget</u>	Actual Expenditures <u>@ 6/30/12</u>	Variance Positive <u>(Negative)</u>	Amount <u>Encumbered</u>
Mobile Communications	\$ 266,902	\$ 215,703	\$ 51,199	\$ -
Equipment Maintenance	1,224,726	954,516	270,210	104,304
Professional and Specialized Services	5,327,551	3,140,270	2,187,281	1,360,856
Publications and Legal Notices	255,000	124,869	130,131	-
Total	<u>\$ 7,074,179</u>	<u>\$ 4,435,358</u>	<u>\$ 2,638,821</u>	<u>\$ 1,465,160</u>

Management's Discussion and Analysis

Fixed Assets

Actual Fixed Assets expenditures at year-end were \$2,064,264 as compared to the final Adjusted Budget of \$3,635,085, a positive variance of \$1,570,821. Several planned purchases were delayed until fiscal year 2012-13. Listed in the table below are the expenditures that make up the major variances in the Fixed Assets accounts.

	Final Adjusted Budget	Actual Expenditures @ 6/30/12	Variance Positive (Negative)	Amount Encumbered
Office Improvements	\$ 215,552	\$ 154,492	\$ 61,060	\$ 15,438
Computer Equipment	863,297	508,719	354,578	176,998
Automobiles	572,219	314,080	258,139	60,432
Office Machines	117,656	109,254	8,402	-
Video Teleconferencing System	350,974	277,882	73,092	79,385
Air Monitoring Station Equipment	829,183	520,922	308,261	162,401
AMS Automation Project	450,000	-	450,000	450,000
Total	\$ 3,398,881	\$ 1,885,349	\$ 1,513,532	\$ 944,654

Non-Operating Budget

Revenues

Actual Non-Operating Revenues at June 30, 2012 were \$116,239,934 as compared to the final Adjusted Budget of \$138,129,389, a negative variance of \$21,889,455. Listed in the table below are the revenues that make up the major variances in Non-Operating Revenues.

	Final Adjusted Budget	Actual Revenues @ 6/30/12	Variance Positive (Negative)
Air Toxics	\$ 25,000	\$ 20,040	\$ (4,960)
DMV Surcharge Fees	30,237,200	33,924,081	3,686,881
Carl Moyer Program	8,815,189	10,196,228	1,381,039
Proposition 1B	75,000,000	57,711,083	(17,288,917)
Lower Emission School Bus Program	1,448,700	226,763	(1,221,937)
Federal Grants	2,767,500	2,189,509	(577,991)
Air Shed - Ag Tractor Replacement Program	2,813,400	1,790,110	(1,023,290)
Diesel Emission Reduction Act	6,809,000	2,103,744	(4,705,256)
CEC - Energy Efficiency Block Grant	4,119,300	3,769,289	(350,011)
VERA/ISR Rule Mitigation Funds	2,984,000	1,884,168	(1,099,832)
Non-Operating Interest	2,277,300	1,868,318	(408,982)
Other Miscellaneous Incentives	832,800	556,601	(276,199)
Total	\$ 138,129,389	\$ 116,239,934	\$ (21,889,455)

Management's Discussion and Analysis

The \$17,288,917 negative variance for Proposition 1B funds is due to the delay in receipt of this revenue because of a delay in the bond selling process and the unavailability of these funds from the State. These funds are anticipated to be available during the 2012-13 fiscal year.

Expenditures

Actual Non-Operating Expenditures at June 30, 2012 were \$90,894,298 as compared to the final Adjusted Budget of \$244,630,970 a positive variance of \$153,736,672. Listed in the following table are the expenditures that make up the variances in Non-Operating Expenditures.

	Final Adjusted Budget	Actual Expenditures @ 6/30/12	Variance Positive (Negative)
Air Toxics-Pass Through	\$ 25,000	\$ -	\$ 25,000
Federal Grants - Non-Operating	7,189,000	2,103,744	5,085,256
Carl Moyer Program	37,782,039	16,303,666	21,478,373
DMV Surcharge Fees	48,152,100	7,730,951	40,421,149
VERA/ISR Rule Mitigation Program	7,493,070	2,989,915	4,503,155
Proposition 1B Program	76,160,300	14,637,277	61,523,023
Lower Emission School Bus Funds	46,228,263	41,170,100	5,058,163
Air Shed - Ag Tractor Replacement Program	2,767,500	2,189,509	577,991
Diesel Emission Reduction Act	3,756,661	1,790,110	1,966,551
Community Incentive Programs	5,436,359	540,130	4,896,229
CEC - Energy Efficiency Block Grant	4,178,378	427,759	3,750,619
Miscellaneous Incentive Programs	4,612,300	1,011,137	3,601,163
Appropriation for Contingencies	850,000	-	850,000
Total	\$ 244,630,970	\$ 90,894,298	\$ 153,736,672

The District has a policy of not entering into incentive agreements for non-federal grant contracts until grant funds are received by the District. This occasionally results in delayed expenditures. A significant amount of grant funds that were received and appropriated in FY 2011-12, (Carl Moyer Program, Proposition 1B Program, Lower Emission School Bus Program, and Indirect Source Review (ISR) Rule Mitigation Funds) will not be expended on incentive contracts until FY 2012-13 or later. Federal incentive grant contracts are reimbursable grants whereby the District must expend the incentive grant funds prior to receiving reimbursement from the Federal government.

H. Next Year's Budget

The Adopted Budget for FY 2012-13 is \$226,331,722 as compared to the Adjusted Budget for FY 2011-12 of \$285,822,995, a decrease of \$59,491,273. This decrease is mainly due to successful completion of many one-time incentive programs such as LESB and Proposition 1B which were budgeted and completed during 2011-12.

Management's Discussion and Analysis

I. Economic Factors

It is important to note that the District is relatively self-sufficient with no significant dependence on the state or federal funding for its operating expenditures. In addition, ongoing, long-term forecasts project stable fiscal health for the District. While the District does face a full agenda of challenges, the Governing Board generally has sufficient resources available to meet them.

J. Requests for Information

This financial report is designed to provide a general overview of the District's finances for readers of the financial statements. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, 1990 East Gettysburg Avenue, Fresno, California 93726-0244.

San Joaquin Valley Unified Air Pollution Control District
Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets:	
Cash and Investments	\$ 170,825,697
Accrued Revenues	15,627,079
Prepaid Expenses	301,836
Total Current Assets	186,754,612
Noncurrent Assets:	
Land	904,208
Capital Assets, Net of Accumulated Depreciation	9,080,410
Total Noncurrent Assets	9,984,618
Total Assets	\$ 196,739,230
<u>Liabilities</u>	
Current Liabilities:	
Accounts Payable	\$ 3,907,322
Accrued Wages Payable	1,129,400
Deferred Revenue	176,015
Compensated Absences Payable	193,850
Capital Leases Payable	362,231
Total Current Liabilities	5,768,818
Non-Current Liabilities:	
Compensated Absences Payable	2,684,217
Total Non-Current Liabilities	2,684,217
Total Liabilities	8,453,035
<u>Net Assets</u>	
Invested in Capital Assets, net of related debt	9,622,387
Restricted for Special Projects/Programs	144,317,055
Unrestricted	34,346,753
Total Net Assets	188,286,195
Total Liabilities and Net Assets	\$ 196,739,230

The notes to the financial statements are an integral part of the this statement.

San Joaquin Valley Unified Air Pollution Control District
Statement of Activities
For the Year Ended June 30, 2012

Programs	Expenses	Program Revenues			Restricted Special Revenue Sources *	Net (Expense) Revenue and Changes in Net Assets
		Fees & Charges for Services		Operating Grants		
		Stationary Sources	Mobile Sources			
Governmental Activities:						
Permitting	\$ 14,170,277	\$ 15,947,291	\$ 2,177,309	\$ 834,027	\$ -	\$ 4,788,350
Enforcement / Air Monitoring	11,780,877	7,579,782	2,264,169	984,749	-	(952,177)
Agricultural Burning	330,116	441,957	456	-	-	112,297
Plan & Rule Development	1,696,327	-	1,379,054	174,347	-	(142,926)
Mobile Sources	3,778,290	-	4,197,216	-	-	418,926
Outreach & Communications	2,215,619	-	2,037,209	-	-	(178,410)
Air Quality Analysis	3,335,839	-	907,122	207,877	-	(2,220,840)
Restricted for Grants and Other Special Uses	94,235,828	-	-	-	116,153,677	21,917,849
Total Governmental Activities	<u>\$ 131,543,173</u>	<u>\$ 23,969,030</u>	<u>\$ 12,962,535</u>	<u>\$ 2,201,000</u>	<u>\$ 116,153,677</u>	<u>23,743,069</u>

General Revenues:

State Subvention - not restricted to specific programs	916,983
Interest - not restricted to specific programs	552,185
Penalties/Settlements	5,715,216
Gain (Loss) on disposal of Capital Assets	(26,815)
Miscellaneous Revenue	202,190
Total General Revenues	<u>7,359,759</u>
Change in Net Assets	31,102,828
Net Assets - beginning, July 1, 2011	<u>157,183,367</u>
Net Assets - ending, June 30, 2012	<u>\$ 188,286,195</u>

* Restricted Special Revenue Sources consist of pass-through and /or one-time limited duration funding sources that are restricted for specific programs such as Carl Moyer Program Fund, and Lower Emission School Bus Fund.

The notes to the financial statements are an integral part of this statement.

San Joaquin Valley Unified Air Pollution Control District
Balance Sheet - Governmental Funds
June 30, 2012

Assets:

Cash and Investments	\$ 170,825,697
Accrued Revenues	15,627,079
Prepaid Expenses	301,836
Total Assets	<u>\$ 186,754,612</u>

Liabilities:

Accounts Payable	\$ 3,907,322
Accrued Wages Payable	1,129,400
Deferred Revenue	176,015
Total Liabilities	<u>5,212,737</u>

Fund Balance:

Nonspendable Fund Balance	301,836
Restricted Fund Balance	144,317,055
Assigned Fund Balance	22,590,832
Unassigned Fund Balance	14,332,152
Total Fund Balance	<u>181,541,875</u>
Total Liabilities and Fund Balance	<u>\$ 186,754,612</u>

The notes to the financial statements are an integral part of this statement.

San Joaquin Valley Unified Air Pollution Control District
Reconciliation of the Governmental Fund Balance Sheet to the
Government-wide Statement of Net Assets

June 30, 2012

Fund Balance - Governmental Funds	\$ 181,541,875
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Land and Capital Assets Net of Accumulated Depreciation have not been included as financial resources in the General Fund activity. These capital assets are reported in the Statement of Net Assets as capital assets of the District as a whole.	9,984,618
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets.	<u>(3,240,298)</u>
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Net Assets of Governmental Activities	<u><u>\$ 188,286,195</u></u>
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The notes to the financial statements are an integral part of this statement.

San Joaquin Valley Air Pollution Control District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2012

Revenues:	
Operating:	
License and Permit Fees	\$ 34,590,634
Administrative Fees	2,340,935
Penalties and Settlements	5,715,216
Interest	552,185
State Grants	916,983
Federal Grants	2,201,000
Miscellaneous Revenue	202,187
Total Operating Revenue	<u>46,519,140</u>
Non-Operating:	
Incentive Grants	104,218,965
Interest	1,868,318
Federal Grants	10,152,651
Total Non-Operating Revenue	<u>116,239,934</u>
Total Revenues	<u><u>162,759,074</u></u>
Expenditures:	
Operating:	
Salaries and Benefits	30,335,317
Services and Supplies	4,731,489
Capital Outlay	1,958,679
Debt Services:	
Principal	345,678
Interest	27,268
Total Operating Expenditures	<u>37,398,431</u>
Non-Operating:	
Restricted for Grants and Other Special Uses	94,235,828
Total Expenditures	<u>131,634,259</u>
Net Change in Fund Balance	31,124,815
Beginning Fund Balance, July 1, 2011	150,417,060
Fund Balance, June 30, 2012	<u><u>\$ 181,541,875</u></u>

The notes to the financial statements are an integral part of this statement.

San Joaquin Valley Unified Air Pollution Control District
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and
Changes in Fund Balance to the Government-wide Statement of Activities
For the Year Ended June 30, 2012

Net Change in Fund Balance - Governmental Funds \$ 31,124,815

Amounts reported for governmental activities in the Statement of Activities are different because:

The General Fund reports capital outlays as expenditures. However, in the Government-wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of the capital outlays recorded in the current period. 1,238,391

Depreciation expense on capital assets is reported in the Government-wide Statement of Activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the Governmental Fund. (1,355,504)

The net effect of disposal of assets. (26,815)

Revenues that do not provide current financial resources are not reported as revenues in the governmental funds (deferred revenue) but are recognized as revenue in the Statement of Activities. (86,258)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources for the governmental funds. Neither transaction, however, has any effect on net assets. This is the net decrease (increase) in the long-term liabilities. 345,678

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (137,479)

Change in Net Assets of Governmental Activities \$ 31,102,828

The notes to the financial statements are an integral part of this statement.

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The San Joaquin Valley Unified Air Pollution Control District (District) is a special district operating under the provisions of Sections 40150 through 40162 of the California Health and Safety Code. The District exists to develop and implement programs on a local level to meet the requirements of state and federal air pollution control laws in the San Joaquin Valley. The San Joaquin Valley Air Basin (SJVAB) comprises eight counties (San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings, Tulare, and the Valley portion of Kern), and covers about 25,000 square miles. The District is governed by a fifteen member Board that consists of one representative from the board of supervisors of all eight counties, five council members from Valley cities and two governor-appointed public members. The District operates a network of air monitoring stations, analyzes air quality data and establishes maximum emission levels for stationary, commercial, and industrial facilities that are enforced through the District's permit system.

B. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The District considers accrued revenue to be available if it is collected within 90 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. State and federal grants, vehicle registration fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when the District receives cash.

Government-wide Financial Statements

The District government-wide financial statements include a Statement of Net Assets and Statement of Activities. These statements present summaries of governmental activities for the District as a whole.

These statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities including capital assets and long-term liabilities are included in the accompanying Statement of Net Assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

The Statement of Activities demonstrates the degree to which the direct expenses of a given functional activity are offset by program revenues directly connected with the functional activity. Direct expenses are those that are clearly identifiable with a specific functional activity.

The District's functional activities are broken down into the following categories:

- Permitting
- Enforcement / Air Monitoring
- Agricultural Burning
- Plan and Rule Development
- Mobile Sources
- Outreach and Communications
- Air Quality Analysis

The types of transactions reported as program revenues are reported in three categories: 1) Fees and Charges, including stationary source fees from permitted facilities and mobile source fees derived from motor vehicle registrations, 2) Operating Grants that are in support of air pollution program activities, and 3) Restricted Special Revenue Sources. Program revenues are netted with program expenses to present the net cost of each functional activity. Interest

NOTES TO THE BASIC FINANCIAL STATEMENTS

income and other miscellaneous revenue that cannot be identified with a program are reported as General Revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements rather than reporting them as expenditures.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance.

Reconciliation of the fund financial statements to the government-wide financial statements is provided to explain the differences as a result of the integrated approach of the Governmental Accounting Standards Board (GASB) Statement No. 34 reporting.

All governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Using the current financial resources measurement focus means that only current assets and current liabilities are generally included in the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than recording them as fund assets.

C. Fund Types

General Fund

The primary operating fund of the District is used to record transactions relating to its general business operations.

D. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is employed in the General Fund. Purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are recorded as assignment of fund balance for expenditure in a subsequent year. These outstanding encumbrances do not constitute

NOTES TO THE BASIC FINANCIAL STATEMENTS

expenditures or liabilities until performance has occurred on the part of the vendors with whom the District has entered into an agreement.

E. Capital Assets and Depreciation

Land, equipment, buildings and improvements are valued at cost unless obtained by donation in which case the assets are recorded at the appraised value at the date of receipt. Capital Asset purchases with values of at least \$2,000 and with an expected useful life greater than one year are capitalized. The District implemented GASB Statement No. 51 and started capitalizing intangible software that was developed internally and met the threshold of \$100,000 for Intangible asset capitalization.

Repair and maintenance costs are charged to current expenditures as incurred. Equipment disposed of or no longer required for its existing use is removed from the records at actual or estimated cost.

Depreciation is charged as an expense against operations, and accumulated depreciation is reported on the Statement of Net Assets. Property, plant, and equipment of the District are depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	20-40 Years
Air Monitoring and Detection Equipment	5-10 Years
Office Furniture and Other Misc. Equipment	5-10 Years
Telephone Equipment	10 Years
Computer Equipment and Software	5 Years
Automobiles	5 Years

F. Compensated Absences

Regular employees accumulate annual leave. Certain restrictions apply with respect to the accumulation of annual leave and its payment at termination.

The current and noncurrent portion of compensated absences amounted to \$193,850 and \$2,684,217, respectively, and has been reflected in the Statement of Net Assets.

G. Self Insurance

The District is self-insured on comprehensive/collision coverage on all District automobiles. The Special District Risk Management Authority provides coverage

NOTES TO THE BASIC FINANCIAL STATEMENTS

for comprehensive general and auto liability, public officials liability, public employees blanket bond, and the replacement cost of property. (See note 6).

H. Restrictions on Net Assets

Total Restricted Net Assets at year-end were \$144,317,055. Restricted Net Assets are assets that are subject to restrictions beyond the District's control. The programs listed below are subject to restrictions imposed by the grantors of each program. The amounts for each program are as follows:

Heavy-Duty Program - Incentives	\$ 24,241,320
DMV Surcharge Fees - Incentives	48,780,574
DMV Fees - Rollover	452,808
State ERC Bank Program	16,857
Peaker Plant Program	17,256
Dairy CEQA Program	9,062
ISR Rule Mitigation Program	6,555,637
Lower Emission School Bus Program	3,771,403
DERA – Lower Emission Reduction Programs	224,207
Winery Rule Program	48,697
Proposition 1B Program	58,700,040
Voluntary Emission Reduction Agreements	1,499,194
Total Restricted Net Assets	<u><u>\$ 144,317,055</u></u>

As these restrictions are also restrictions of fund balance, a description and the purpose of each program can be found in Note 1.I.

I. Fund Balance

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraint placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in spendable form (such as inventory or prepaid expenses) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provision, or by enabling legislation.

NOTES TO THE BASIC FINANCIAL STATEMENTS

- Committed fund balance—amounts constrained to a specific purpose by the District itself, using its highest level of decision-making authority (i.e. District Governing Board). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same level of action to remove or change the constraint.
- Assigned fund balance—amounts the District intends to use for a specific purpose. Intent can be expressed by the District Governing Board (the Board) or by an official or body to which the Board delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Only positive amounts are reported in the General Fund.

The District Governing Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Governing Board through adoption or amendment of the budget as intended for specific purpose.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance is available, the District considers amounts to have spent first out of committed funds, then assigned funds, and finally unassigned funds.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The amounts of various fund balance categories required by GASB Statement No. 54 are as follows:

Nonspendable Fund Balance	\$	301,836
Restricted Fund Balance:		
Heavy-Duty Program - Incentives		24,241,320
DMV Surcharge Fees - Incentives		48,780,574
DMV Surcharge Fees - Rollover		452,808
State ERC Bank Program		16,857
Peaker Plant Mitigation Program		17,256
Dairy CEQA Program		9,062
ISR Rule Mitigation Program		6,555,637
Lower Emission School Bus Program		3,771,403
DERA – Lower Emission Reduction Program		224,207
Winery Rule Program		48,697
Proposition 1B Program		58,700,040
Voluntary Emission Reduction Program		1,499,194
Total Restricted Fund Balance		144,317,055
Assigned Fund Balance:		
Encumbrances		2,440,957
Community Incentive Programs		17,155,833
Long-Term Building Maintenance		443,000
Video Teleconferencing and Computer Equipment		1,500,000
Appropriated FY 2012-13 Budgetary Deficit		1,051,042
Total Assigned Fund Balance		22,590,832
Unassigned Fund Balance:		
General Reserve		4,100,000
Unreserved		10,232,152
Total Unassigned Fund Balance		14,332,152
Total Fund Balance		\$ 181,541,875

Nonspendable Fund balance:

- The \$301,836 fund balance is for prepaid medical, travel and other expenses and also a long-term notes receivable to the FLEX spending bank account.

Restricted Fund balance:

- The \$24,241,320 fund balance for the Heavy-Duty Program - Incentives represents monies and related interest identified by the District Governing Board for distribution to qualifying Heavy-Duty Programs. The qualifying programs

NOTES TO THE BASIC FINANCIAL STATEMENTS

include the Carl Moyer Program, California Energy Commission Funds (CEC), the Traffic Congestion Relief Program (TCRP), Zero Emission Ag Utility, and Miscellaneous Incentive Grants.

- The \$48,780,574 fund balance for DMV Surcharge Fees – Incentives represents monies identified by the District Governing Board for distribution to qualifying agencies or individuals in the District’s DMV Heavy-Duty Emissions Program and the DMV Mobile Source Incentives Program.
- The \$452,808 fund balance for the DMV Surcharge Fees – Rollover represents unanticipated revenue and unexpended appropriations specifically identified for District-managed incentive programs, and interest earned on DMV Surcharge Fee monies.
- The \$16,857 fund balance for the State ERC Bank Program represents monies from the California Air Resources Board’s NOx and PM Emission Reduction Credit Bank Program. The District will use these funds for Heavy-Duty Engine Emission Reduction Program incentives.
- The \$17,256 fund balance for the Peaker Plant Mitigation Program represents monies from new and expanding Power Plants to fund mitigation programs focused on Heavy-Duty Engine Projects. The District will use these funds for Heavy-Duty Engine Emission Reduction Program incentives.
- The \$9,062 fund balance for the Dairy CEQA Program represents monies received from dairy permit applicants within the San Joaquin Valley. These monies will be used to fund and execute agreements with dairy project applicants and environmental consultants to prepare CEQA documents for dairy projects where the District is the lead agency.
- The \$6,555,637 fund balance for the ISR Rule Mitigation Program represents funds received from new development projects. These funds will be used as incentive grants for projects that will offset the future projected emissions generated by these development projects.
- The \$3,771,403 fund balance for the Lower Emission School Bus Program represents funds received from the California Air Resources Board. The District will use these funds for the District’s Heavy-Duty Engine Program for school bus replacement and retrofits.
- The \$224,207 fund balance for the DERA - Diesel Emission Reduction Program represents funds from the Environmental Protection Agency passed through to the California Air Resources Board. These funds will be used for the retrofit of school buses.

NOTES TO THE BASIC FINANCIAL STATEMENTS

- The \$48,697 fund balance for the Winery Rule Program represents fees collected under District Rule 4694, Wine Fermentation and Storage Tanks. These funds will be used for projects that will mitigate future projected emissions.
- The \$58,700,040 fund balance for the Proposition 1B Program represents funds received from the California Air Resources Board. These funds will be used for the replacement and retrofit of heavy-duty trucks.
- The \$1,499,194 fund balance for the Voluntary Emission Reduction Program represents funds received from voluntary development mitigation contracts. These funds will be used as incentive grants for projects that will offset the projected future emissions of these development projects.

Assigned Fund Balance:

- The \$2,440,957 fund balance for encumbrances outstanding at June 30, 2012 represents the amount of expenditures that would result if contracts in process at fiscal year-end were completed. This assignment earmarks resources to pay for these contractual obligations by segregating a portion of fund balance.
- The \$17,155,833 was assigned by the District Governing Board for various Community Incentive Programs.
- The \$443,000 was established by the District Governing Board to provide for Long-Term Building Maintenance.
- The \$1,500,000 was established by the District Governing Board to provide for Video Teleconferencing and Computer Equipment.
- The \$1,051,042 is the portion of existing fund balance that is included as a budgetary resource in the fiscal year 2012-13 budget.

Unassigned Fund Balance:

- From total Unassigned Fund Balance of \$14,332,152 reported on June 30, 2012; \$4,100,000 is a General Reserve that was established by the District Governing Board to provide for additional financial stability.

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTES TO THE BASIC FINANCIAL STATEMENTS

K. New Pronouncements

The District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In December 2010, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board ("FASB") Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure

These pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Application of this Statement is effective for the District's fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the District's fiscal year ending June 30, 2013.

In March 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement are effective for the District's fiscal year ending June 30, 2014.

NOTES TO THE BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS

Cash and Investments as of June 30, 2012 consisted of the following:

Petty Cash	\$	1,050
District Cash Funds		2,800
Change Funds		150
Postage Funds		17,760
Total Cash On Hand		21,760
Wells Fargo Bank		9,156,702
Other Deposits		96
Total Deposits with Financial Institutions		9,156,798
Security Deposit - Leased Property		2,000
Total Other Deposits		2,000
Fresno County Treasurer		160,378,185
Kern County Treasurer		1,266,954
Total Investments with County Investment Pools		161,645,139
Total Cash and Investments	\$	170,825,697

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk and credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
County Investment Pool	N/A	100%	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In other words, the risk that interest rates will rise and reduce the market value of an investment. Generally, the longer the maturity of an investment, the greater its sensitivity is to fair value and to changes in market interest rates.

NOTES TO THE BASIC FINANCIAL STATEMENTS

As of June 30, 2012, none of the District's investments are required to disclose interest rate risk.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of the rating required by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, or the District's investment policy, and the actual rating as of year-end for each type. The column marked "exempt from disclosure" identifies those investment types for which GASB Statement No. 40 does not require disclosure as to credit risk:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-End</u>		
				<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
County Investment Pool	<u>\$161,645,139</u>	N/A	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$161,645,139</u>

County of Fresno Treasurer's Investment Pool

The District is a voluntary participant in the County of Fresno Treasurer's Investment Pool that is regulated by California Government Code. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value for the entire Investment Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Investment Pool, which are recorded on an amortized cost basis.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. California Government Code (CGC) and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2012, all of the District's deposits with financial institutions were held in fully collateralized accounts, as permitted by the CGC.

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS AND DEPRECIATION

Capital Assets of the District for the year ended June 30, 2012 consisted of the following:

Capital Assets - Governmental Activities				
	Balance			Balance
	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Land	\$ 904,208	\$ -	\$ -	\$ 904,208
Building and Improvements	6,924,267	145,996	-	7,070,263
Machinery and Equipment	9,835,852	1,092,395	686,392	10,241,855
Intangible Assets	1,061,051	-	-	1,061,051
Totals	18,725,378	1,238,391	686,392	19,277,377
Less Accumulated Depreciation:				
Building and Improvements	1,583,578	203,494	-	1,787,072
Machinery and Equipment	6,268,728	1,078,504	659,577	6,687,655
Intangible Assets	744,526	73,506	-	818,032
	8,596,832	1,355,504	659,577	9,292,759
Net book value of Capital Assets	\$ 10,128,546	\$ (117,113)	\$ 26,815	\$ 9,984,618

For the year ended June 30, 2012, depreciation expense of \$1,355,504 on capital assets was charged to the District's activities as follows:

Permitting	\$ 324,021
Enforcement / Air Monitoring	790,706
Agricultural Burning	47,895
Plan and Rule Development	52,141
Mobile Sources	79,426
Outreach and Communications	32,287
Air Quality Analysis	29,028
Total Depreciation Expense	\$ 1,355,504

4. COMPENSATED ABSENCES

When employment with the District is terminated, an employee will receive compensation for all unused annual leave hours.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The following is a summary of earned compensated absences of the District for the year ended June 30, 2012:

July 1, 2011 Balance	\$2,740,588
Plus: Net Increase	137,479
June 30, 2012 Balance	\$2,878,067
 Amount Due within one Year	 \$ 193,850
Amount Due More Than One Year	\$2,684,217

5. RETIREMENT PLAN

Plan Description

The District contributes to the Kern County Employees' Retirement Association (KCERA), a cost-sharing, multiple employer, defined benefit pension plan administered by the Board of Retirement. KCERA provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The County Employees' Retirement Law of 1937 assigns the authority to establish and amend benefit provisions to the Kern County Board of Supervisors. KCERA issues a stand-alone financial report and required supplementary information, which may be obtained from KCERA at 1125 River Run Blvd. Bakersfield, California 93311.

Funding Policy

Plan members must contribute a percentage of their annual covered salary, which varies depending upon their age at date of entry in the association. The Average percentage was 4.0% during the fiscal year. The District is required to contribute at an actuarially determined rate. The contribution for Fiscal Year 2011-12 is 34.28% of annual covered payroll for a total amount of \$7,331,907. The contribution requirements of plan members and the District are established and may be amended by the Board of Retirement. The District's contributions to KCERA for each of the last three fiscal years are as follows:

Years Ended	Annual Required	Percentage
<u>June 30</u>	<u>Contribution</u>	<u>Contributed</u>
2012	\$ 7,331,907	100%
2011	\$ 6,962,404	100%
2010	\$ 5,653,041	100%

NOTES TO THE BASIC FINANCIAL STATEMENTS

KCERA's funded status based on the most recent actuarial valuation as of June 30, 2011 is as follows (amounts expressed in thousands):

Kern County Employees' Retirement Association (amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a) (c)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Annual Covered Payroll (c)/(d)
6/30/2011	2,839,747	4,672,348	1,832,601	60.78%	539,836	339.47%

6. RISK MANAGEMENT

The District participates in a joint powers authority, the Special District Risk Management Authority, (SDRMA) whose purpose is to develop and fund programs of excess insurance for comprehensive liability, property and employee blanket bonds for its member districts.

For the fiscal year 2011-12, the District contributed \$157,876 to the SDRMA. The District's contributions represented 0.6% of all member contributions.

The District has coverage against claims up to a limit of \$10,000,000 for comprehensive general and auto liability and public official's liability, and up to \$400,000 for public employees blanket bond and for the replacement cost of property.

The District's workers compensation insurance carrier during fiscal year 2011-12 was the State Compensation Insurance Fund.

7. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits them to defer a portion of their salary until future years. These funds are not available to employees until termination, retirement, death or unforeseen emergency.

The deferred compensation plan monies are invested in various investment funds as selected by the participating employees. The available investment options include a fixed return fund, stock fund, bond fund and a money market fund. All amounts of compensation deferred under the plan and all income attributed to those amounts are held in trust for the exclusive benefit of plan participants and their beneficiaries.

NOTES TO THE BASIC FINANCIAL STATEMENTS

8. COMMITMENTS AND ENCUMBRANCES

Operating Leases

The District is obligated under operating leases for the rental of office space. The District's rental expense was \$413,688 for the year ended June 30, 2012. Future minimum lease payments under these leases are as follows:

Year Ending June 30,	
2013	\$ 393,768
2014	408,888
2015	424,008
2016	424,008
2017 - 2019	1,141,020
Total	<u>\$ 2,791,692</u>

Encumbrances

The District utilizes encumbrance accounting in its governmental funds as explained in Note 1.D. Total encumbrances for the General Fund as of June 30, 2012 were \$2,440,957. Encumbrances are categorized as Assigned Fund Balance.

9. CAPITAL LEASE OBLIGATIONS

The District currently has two capital lease agreements. One agreement for a Telephone System, and a second agreement for a Video Teleconferencing System upgrade, that provides title to pass to the District upon expiration of the lease period. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset:

Telephone Equipment	\$ 530,820
Video Teleconferencing Equipment	<u>1,178,035</u>
Subtotal	1,708,855
Less: Accumulated Depreciation	<u>1,084,284</u>
Total	<u>\$ 624,571</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, are as follows:

Year Ended June 30:	Total Future Minimum Lease Payments
2013	\$ 372,946
Total minimum lease payments	<u>372,946</u>
Less: amount representing interest	<u>(10,715)</u>
Present Value of minimum lease payments	362,231
Amount due within one year	<u>(362,231)</u>
Amount due in more than one year	<u><u>\$ -</u></u>

Interest Included as Direct Expense

Interest expense of \$27,268 on long-term debt has been allocated as direct expense to individual benefiting functions on the government-wide statement of activities.

10. PENDING LITIGATION

There are various lawsuits and claims filed against the District which, in the opinion of the District Counsel, will be resolved with no material adverse effect on the District's financial position or results of operations.

Required Supplementary Information

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San Joaquin Valley Unified Air Pollution Control District
General Fund - Budgetary Comparison Schedule
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance Positive (Negative)
	Adopted	Final Adjusted		
Operating Budget				
Revenues:				
Vehicle Registration Fees	\$ 10,100,000	\$ 10,100,000	\$ 10,621,602	\$ 521,602
License and Permit Fees	26,966,600	26,966,600	24,107,106	(2,859,494)
Interest	395,000	395,000	552,185	157,185
Penalties and Settlements	2,500,000	2,500,000	5,579,341	3,079,341
State Grants	899,000	899,000	916,983	17,983
Federal Grants	2,141,000	2,141,000	2,201,000	60,000
Administrative Fees	3,060,600	3,222,900	2,340,935	(881,965)
Miscellaneous Revenue	52,000	52,000	199,988	147,988
Total Operating Revenues	<u>46,114,200</u>	<u>46,276,500</u>	<u>46,519,140</u>	<u>242,640</u>
Operating Amounts Available For Appropriations	46,114,200	46,276,500	46,519,140	242,640
Expenditures:				
Salaries and Benefits	30,833,389	30,842,451	30,335,317	507,134
Services and Supplies	6,400,377	7,074,179	4,435,358	2,638,821
Fixed Assets:				
Office Improvements	65,000	240,552	168,590	71,962
Computer Equipment	684,106	863,297	508,719	354,578
Office Furniture/Equipment	27,002	53,113	26,174	26,939
Office Machines	70,800	117,656	109,254	8,402
Telephone System	139,949	140,237	124,637	15,600
Detection Equipment	16,000	17,853	14,006	3,847
Automobiles	309,800	572,219	314,080	258,139
Video Conferencing System	344,755	350,974	277,882	73,092
Air Monitoring Station Equipment	496,000	829,183	520,922	308,261
AMS Automation Project	450,000	450,000	-	450,000
Total Fixed Assets	<u>2,603,412</u>	<u>3,635,084</u>	<u>2,064,264</u>	<u>1,570,820</u>
Total Operating Charges to Appropriations	<u>39,837,178</u>	<u>41,551,714</u>	<u>36,834,939</u>	<u>4,716,775</u>
Excess of Operating Revenues Over Expenditures	<u>6,277,022</u>	<u>4,724,786</u>	<u>9,684,201</u>	<u>4,959,415</u>
Non-Operating Budget				
Revenues:				
Air Toxics	25,000	25,000	20,040	(4,960)
DMV Surcharge Fees	30,516,400	30,237,200	33,924,081	3,686,881
Carl Moyer Program	8,455,500	8,815,189	10,196,228	1,381,039
Proposition 1B	32,000,000	75,000,000	57,711,083	(17,288,917)
Lower Emission School Bus Program	1,488,200	1,448,700	226,763	(1,221,937)
Federal Grants	-	2,767,500	2,189,509	(577,991)
Air Shed - Ag Tractor Replacement Program	853,400	2,813,400	1,790,110	(1,023,290)
DERA Program Funds	9,576,500	6,809,000	2,103,744	(4,705,256)
CEC - Energy Efficiency Block Grant	3,844,300	4,119,300	3,769,289	(350,011)
VERA/ISR Rule Mitigation Funds	1,495,800	2,984,000	1,884,168	(1,099,832)
Non-operating Interest	1,998,100	2,277,300	1,868,318	(408,982)
Other Miscellaneous Incentives	607,800	832,800	556,601	(276,199)
Non-Operating Amounts Available For Appropriations	<u>90,861,000</u>	<u>138,129,389</u>	<u>116,239,934</u>	<u>(21,889,455)</u>
Expenditures:				
Air Toxics-Pass Through	25,000	25,000	-	25,000
Federal Grants - Non-Operating	9,576,500	7,189,000	2,103,744	5,085,256
Carl Moyer Program	30,427,700	37,782,039	16,303,666	21,478,373
DMV Surcharge Fees	48,102,100	48,152,100	7,730,951	40,421,149
VERA/ISR Rule Mitigation Program	7,064,300	7,493,070	2,989,915	4,503,155
Proposition 1B Program	76,160,300	76,160,300	14,637,277	61,523,023
Lower Emission School Bus Funds	32,062,100	46,228,263	41,170,100	5,058,163
Air Shed - Ag Tractor Replacement Program	-	2,767,500	2,189,509	577,991
Diesel Emission Reduction Act	1,711,500	3,756,661	1,790,110	1,966,551
Community Incentive Programs	5,200,000	5,436,359	540,130	4,896,229
CEC - Energy Efficiency Block Grant	3,844,300	4,178,378	427,759	3,750,619
Miscellaneous Incentive Programs	3,724,500	4,612,300	1,011,137	3,601,163
Total Non-Operating Charges to Appropriations	<u>217,898,300</u>	<u>243,780,970</u>	<u>90,894,298</u>	<u>152,886,672</u>
Excess of Non-Operating Revenues Over Expenditures	<u>(127,037,300)</u>	<u>(105,651,581)</u>	<u>25,345,636</u>	<u>130,997,217</u>
Appropriation for Contingencies	<u>850,000</u>	<u>850,000</u>	<u>-</u>	<u>850,000</u>
Net Change to District Fund Balance, June 30, 2012	<u>\$ (121,610,278)</u>	<u>\$ (101,776,795)</u>	<u>\$ 35,029,837</u>	<u>\$ 136,806,632</u>

NOTES TO THE SCHEDULE OF GENERAL FUND BUDGETED AND ACTUAL EXPENDITURES BUDGETARY BASIS

Note 1 – GENERAL FUND BUDGETARY BASIS RECONCILIATION

The General Fund Budgetary Comparison Schedule on page 43 presents comparisons of the legally Adopted Budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing expenditure data on a budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of differences is presented below for the year ended June 30, 2012.

Excess of revenues over expenditures (GAAP Basis)	\$ 31,124,815
Adjustments from budget cash basis to modified accrual basis	3,905,022
Excess of revenues over expenditures (Budgetary Basis)	\$ 35,029,837

A reconciliation of revenue is not presented since budgetary practices and GAAP do not differ with respect to revenue.

Note 2 - BUDGETING

In accordance with the provisions of the State Health and Safety Code Section 40131, the District's Formation Agreement, and the District's Administrative Code, the District prepares and legally adopts a final balanced budget on or before June 30 of each fiscal year. The final Adopted Budget is available for review on the District's website at www.valleyair.org.

Budgetary control is exercised at the object level. All amendments or transfers of appropriations between these levels are authorized by the Executive Director/APCO and must be approved by the District Governing Board. The Board also must approve supplemental appropriations financed by unanticipated revenues.

Expenditures, except for Fixed Assets, are controlled at the object level for all program budgets within the District. Fixed Assets are controlled at the sub-object level.

San Joaquin Valley Unified Air Pollution Control District

**Schedule of Funding Progress
For the Year Ended June 30, 2012**

The District contributes to the Kern County Employees' Retirement Association (KCERA). The District's defined benefit pension plan is a cost-sharing multiple-employer defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The information presented below in the schedule of funding progress and employer contributions relates to the plan as a whole, of which the District is one participating employer.

**Kern County Employees' Retirement Association
(amounts expressed in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a) (c)	Funded Ratio (a/b) (a/b)	Covered Payroll (d)	UAAL as a Percentage of Annual Covered Payroll (c)/(d)
12/31/2004	\$ 2,012,521	\$ 2,336,406	\$ 323,885	86.14%	\$ 374,951	86.38%
12/31/2005 *	2,164,304	2,861,872	697,568	75.63%	391,381	178.23%
12/31/2006	2,352,028	3,109,038	757,010	75.65%	417,351	181.38%
12/31/2007	2,589,817	3,355,755	765,938	77.18%	453,412	168.93%
6/30/2008	2,654,305	3,671,460	1,017,155	72.30%	482,879	210.64%
6/30/2009	2,780,215	4,205,200	1,424,985	66.11%	559,872	254.52%
6/30/2010	2,794,644	4,457,038	1,662,394	62.70%	559,380	297.19%
6/30/2011	2,839,747	4,672,348	1,832,601	60.78%	539,836	339.47%

Source: Kern County Employees' Retirement Association Actuarial Valuation, June, 30, 2011

* Reflects general member benefit increases

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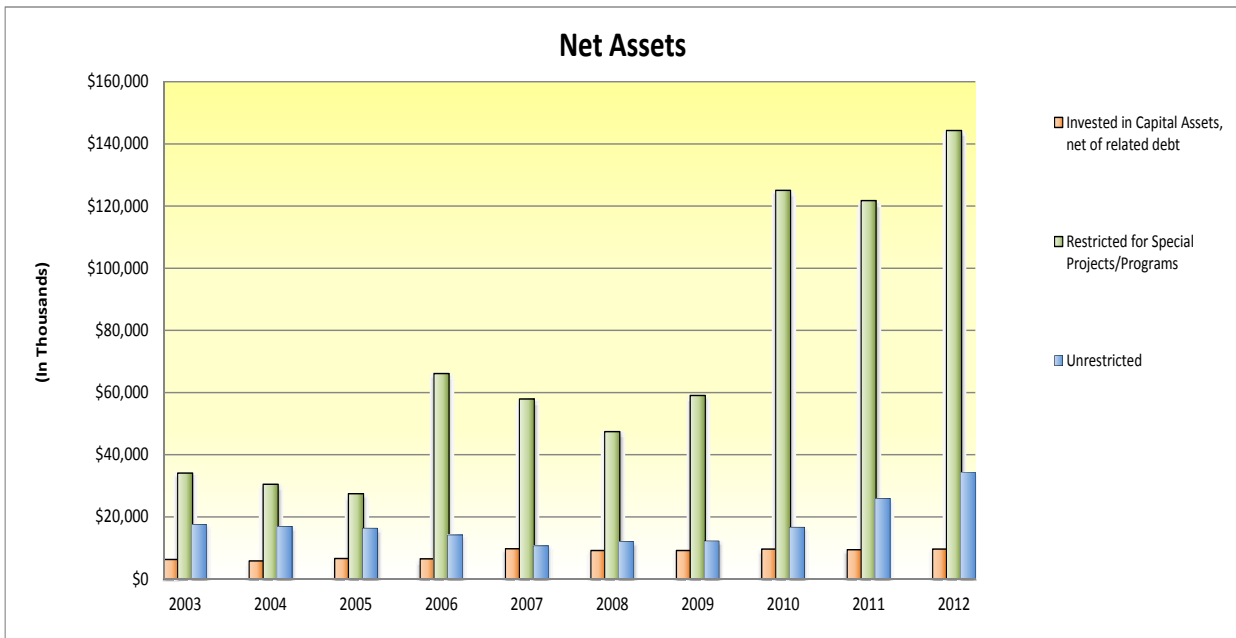
SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

**STATEMENT OF NET ASSETS
Last Ten Fiscal Years**

(accrual basis of accounting)

(In Thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Current and Other Assets	\$ 55,020	\$ 49,920	\$ 46,872	\$ 83,825	\$ 72,106	\$ 63,504	\$ 75,321	\$ 145,587	\$ 151,967	\$ 186,754
Capital Assets	6,232	5,840	6,605	6,504	9,740	10,812	10,525	10,684	10,129	9,985
Total Assets	<u>61,252</u>	<u>55,760</u>	<u>53,477</u>	<u>90,329</u>	<u>81,846</u>	<u>74,316</u>	<u>85,846</u>	<u>156,271</u>	<u>162,096</u>	<u>196,739</u>
Current Liabilities	2,083	1,092	1,430	1,849	1,712	2,415	2,141	1,821	1,999	5,769
Noncurrent Liabilities	1,435	1,432	1,581	1,723	1,837	3,337	3,253	3,091	2,914	2,684
Total Liabilities	<u>3,518</u>	<u>2,524</u>	<u>3,011</u>	<u>3,572</u>	<u>3,549</u>	<u>5,752</u>	<u>5,394</u>	<u>4,912</u>	<u>4,913</u>	<u>8,453</u>
Net Assets:										
Invested in Capital Assets, net of related debt	6,232	5,840	6,605	6,504	9,740	9,160	9,173	9,646	9,421	9,622
Restricted for Special Projects/Programs	34,084	30,494	27,454	66,096	57,905	47,388	59,073	125,061	121,765	144,317
Unrestricted	17,418	16,902	16,407	14,157	10,652	12,016	12,206	16,652	25,997	34,347
Total Net Assets	<u>\$ 57,734</u>	<u>\$ 53,236</u>	<u>\$ 50,466</u>	<u>\$ 86,757</u>	<u>\$ 78,297</u>	<u>\$ 68,564</u>	<u>\$ 80,452</u>	<u>\$ 151,359</u>	<u>\$ 157,183</u>	<u>\$ 188,286</u>



Source:
San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

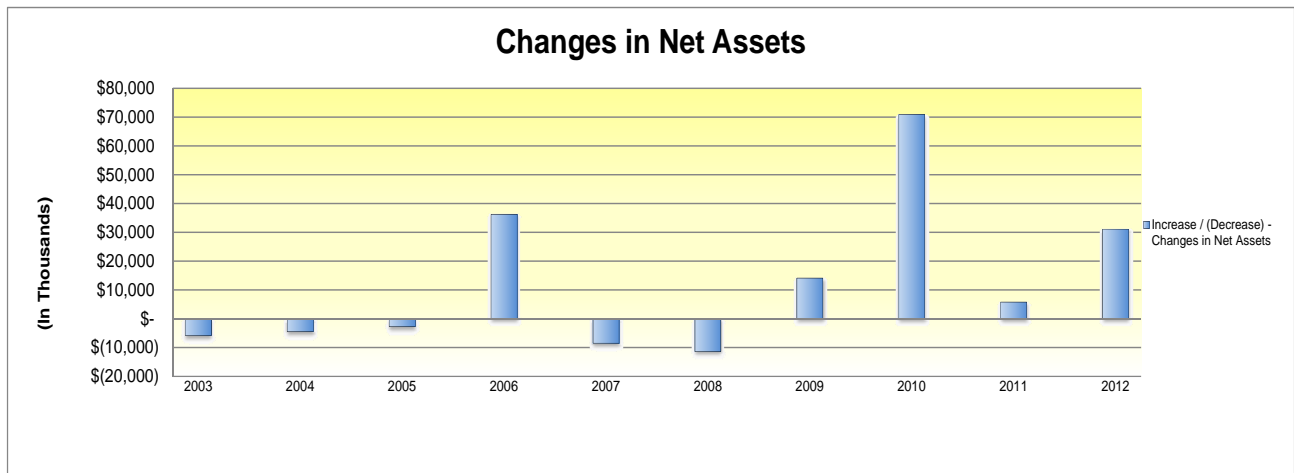
CHANGES IN NET ASSETS

Last Ten Fiscal Years

(accrual basis of accounting)

(In Thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues:										
Program Revenue:										
Fees and Charges - Stationary Sources	\$ 8,423	\$ 8,581	\$ 9,312	\$ 10,413	\$ 11,317	\$ 11,559	\$ 15,852	\$ 19,348	\$ 26,861	\$ 23,969
Fees and Charges - Mobile Sources	9,907	10,100	13,007	11,329	12,041	11,915	11,872	11,569	11,005	12,963
Operating Grants	2,107	1,940	1,997	2,135	94	3,845	2,055	1,630	2,123	2,201
Restricted Special Revenue Sources	5,238	3,660	7,141	44,101	30,231	26,628	37,347	98,837	55,524	116,154
Total Program Revenue	25,675	24,281	31,457	67,978	53,683	53,947	67,126	131,384	95,513	155,287
General Revenues:										
State Subvention	866	868	876	884	868	897	899	900	901	917
Interest	412	328	354	424	625	486	653	164	392	552
Penalties/Settlements	2,813	3,306	3,239	5,393	3,010	4,007	3,605	4,662	6,151	5,715
Miscellaneous	79	141	243	46	81	125	(11)	30	223	175
Total General Revenue	4,170	4,643	4,712	6,747	4,584	5,515	5,146	5,756	7,667	7,359
Other Financing Sources - Capital Asset Leases	-	-	-	-	-	1,652	-	-	-	-
Total Revenue & Other Financing Sources	29,845	28,924	36,169	74,725	58,267	61,114	72,272	137,140	103,180	162,646
Expenses:										
Permitting	6,800	7,787	9,005	9,614	11,230	12,054	12,263	12,758	13,836	14,170
Enforcement / Air Monitoring	7,502	8,518	7,376	9,702	10,314	11,020	11,105	11,761	11,063	11,781
Agricultural Burning	637	1,422	2,412	1,053	1,115	1,181	1,170	937	1,001	330
Plan and Rule Development	2,090	2,109	2,472	2,894	1,854	2,062	2,484	2,035	2,054	1,696
Mobile Sources	890	882	1,052	1,182	1,526	2,284	2,840	3,315	3,399	3,778
Outreach & Communications	1,229	1,284	1,552	1,806	1,675	2,187	2,276	2,321	2,252	2,216
Air Quality Analysis	797	885	996	1,421	1,246	1,235	1,156	1,560	3,023	3,336
Non-Operating	15,701	10,535	14,075	10,762	37,768	40,453	24,872	31,546	60,728	94,236
Total Expenses	35,646	33,422	38,940	38,434	66,728	72,476	58,166	66,233	97,356	131,543
Increase / (Decrease) - Changes in Net Assets	<u>\$ (5,801)</u>	<u>\$ (4,498)</u>	<u>\$ (2,771)</u>	<u>\$ 36,291</u>	<u>\$ (8,461)</u>	<u>\$ (11,362)</u>	<u>\$ 14,106</u>	<u>\$ 70,907</u>	<u>\$ 5,824</u>	<u>\$ 31,103</u>



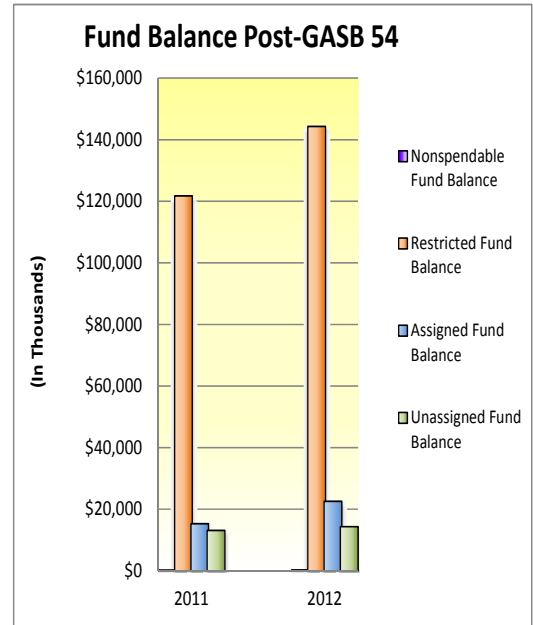
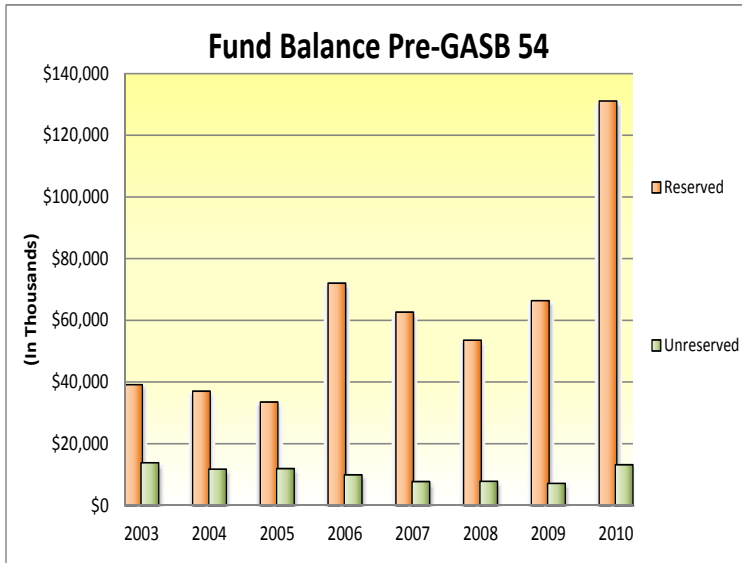
Source:
San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

**FUND BALANCES, GENERAL FUND
Last Ten Fiscal Years**

*(modified accrual basis of accounting)
(In Thousands)*

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund:										
Reserved	\$ 39,137	\$ 37,065	\$ 33,531	\$ 72,069	\$ 62,685	\$ 53,583	\$ 66,370	\$ 131,112	\$ -	\$ -
Unreserved	13,801	11,763	11,911	9,907	7,710	7,805	7,124	13,162	-	-
Nonspendable Fund Balance	-	-	-	-	-	-	-	-	241	302
Restricted Fund Balance	-	-	-	-	-	-	-	-	121,757	144,317
Committed Fund Balance	-	-	-	-	-	-	-	-	-	-
Assigned Fund Balance	-	-	-	-	-	-	-	-	15,309	22,591
Unassigned Fund Balance	-	-	-	-	-	-	-	-	13,110	14,332
Total General Fund	\$52,938	\$48,828	\$45,442	\$81,976	\$70,395	\$61,388	\$73,494	\$144,274	\$150,417	\$181,542



Source: San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

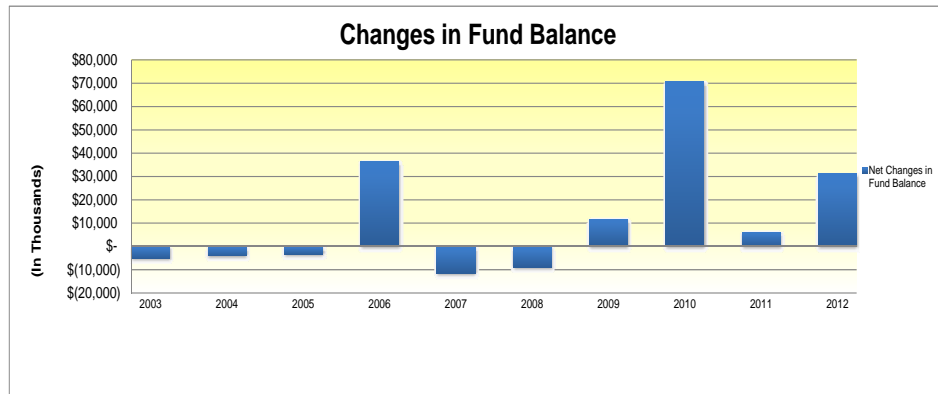
Note: The District implemented GASB Statement No. 54 under which fund balances are reported as nonspendable, restricted, committed, assigned, and unassigned compared to reserved and unreserved.

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

**CHANGES IN FUND BALANCE, GENERAL FUND
Last Ten Fiscal Years**

*(modified accrual basis of accounting)
(In Thousands)*

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues:										
Program Revenues:										
Fees and Charges - Stationary Sources	\$ 8,423	\$ 8,581	\$ 9,312	\$ 10,413	\$ 11,317	\$ 11,559	\$ 15,852	\$ 19,348	\$ 26,829	\$ 26,310
Fees and Charges - Mobile Sources	9,907	10,100	11,013	11,329	12,041	11,915	11,872	11,569	11,004	10,622
Operating Grants	2,107	1,940	1,996	2,135	94	3,845	2,055	1,630	2,123	2,201
Restricted Special Revenue Sources	5,238	3,660	9,135	44,101	30,231	26,628	37,347	98,837	55,524	116,240
General Revenues:										
State Subvention - Not Restricted	866	868	876	884	868	897	899	900	901	917
Interest - Not Restricted	413	328	354	424	625	486	653	164	392	552
Penalties/Settlements	2,812	3,306	3,239	5,393	3,010	4,007	3,605	4,662	6,151	5,715
Miscellaneous Revenue	79	141	244	46	81	125	100	76	(2)	202
Total Revenue	29,845	28,924	36,169	74,725	58,267	59,462	72,383	137,186	102,922	162,759
Expenses:										
Operating:										
Salaries and Benefits	15,136	17,084	19,825	21,693	23,479	24,195	26,172	27,209	29,723	30,335
Services and Supplies	3,570	3,673	4,038	4,464	3,815	4,247	5,100	5,095	4,998	4,731
Capital Outlay	1,354	1,742	1,617	1,273	4,786	2,854	1,916	2,183	958	1,959
Debt Services:										
Principal	-	-	-	-	-	-	300	315	330	346
Interest	-	-	-	-	-	-	73	58	43	27
Total Operating Expenditures	20,060	22,499	25,480	27,430	32,080	31,296	33,561	34,860	36,052	37,398
Non-Operating:										
Pass Through and Non-Operating	15,700	10,535	14,075	10,762	37,768	40,453	24,872	31,546	60,728	94,236
Total Expenditures	35,760	33,034	39,555	38,192	69,848	71,749	58,433	66,406	96,780	131,634
Other Financing Sources - Capital Asset Leases	-	-	-	-	-	1,652	-	-	-	-
Net Changes in Fund Balance - Prior to Adjustment	(5,915)	(4,110)	(3,386)	36,533	(11,581)	(10,635)	13,950	70,780	6,142	31,125
Adjustment to Fund Balance	792	-	-	-	-	1,629	(2,218)	-	-	-
Net Changes in Fund Balance	\$ (5,123)	\$ (4,110)	\$ (3,386)	\$ 36,533	\$ (11,581)	\$ (9,006)	\$ 11,732	\$ 70,780	\$ 6,142	\$ 31,125

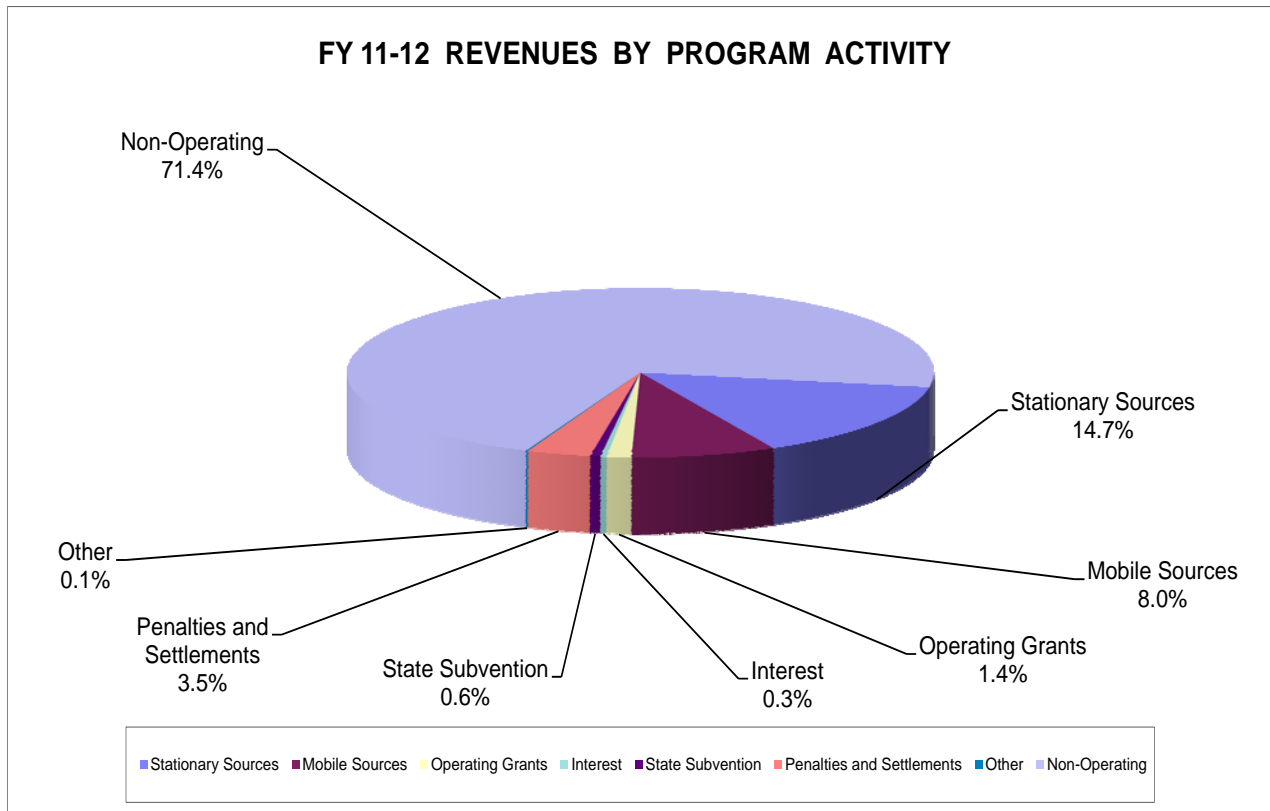


Source:
San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

REVENUES BY PROGRAM ACTIVITY Last Five Fiscal Years

Program Activity	2007-08	2008-09	2009-10	2010-11	2011-12
Stationary Sources	\$ 11,559,383	\$ 15,851,846	\$ 19,347,832	\$ 26,861,373	\$ 23,969,030
Mobile Sources	11,915,269	11,872,072	11,568,759	11,004,317	12,962,535
Operating Grants	3,844,519	2,055,373	1,630,002	2,123,425	2,200,999
Interest	486,560	652,846	164,572	392,185	552,185
State Subvention	896,628	898,823	900,090	901,102	916,983
Penalties and Settlements	4,006,787	3,604,528	4,661,655	6,151,499	5,715,216
Other	124,937	(11,024)	30,522	222,696	175,375
Non-Operating	26,627,693	37,347,323	98,837,105	55,523,858	116,153,677
Total Revenues	\$ 59,461,776	\$ 72,271,787	\$ 137,140,537	\$ 103,180,455	\$ 162,646,000



Notes:

Other includes: Miscellaneous Revenue and Subscriptions

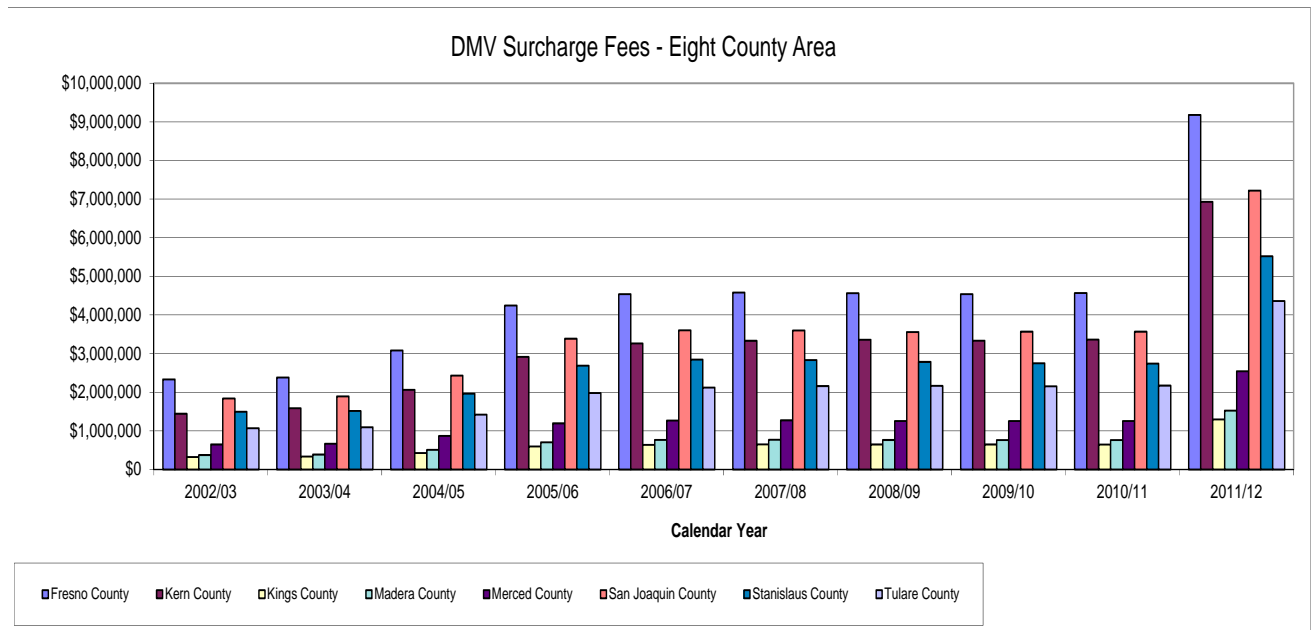
Source:

San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

**DMV SURCHARGE FEES - EIGHT COUNTY AREA
Last Ten Fiscal Years**

Fiscal Year	Fresno County	Kern County	Kings County	Madera County	Merced County	San Joaquin County	Stanislaus County	Tulare County	Total	% Increase
2002/03	\$ 2,332,851	\$ 1,443,497	\$ 321,647	\$ 373,073	\$ 647,110	\$ 1,839,549	\$ 1,494,038	\$ 1,067,073	\$ 9,245,955	3.97%
2003/04	2,379,559	1,584,515	331,516	387,595	664,317	1,893,093	1,514,331	1,093,248	9,518,838	4.48%
2004/05	3,079,191	2,061,601	426,999	509,137	867,833	2,428,456	1,959,813	1,419,005	9,848,174	2.95%
2005/06	4,242,477	2,912,463	596,583	705,113	1,195,142	3,386,635	2,686,686	1,980,099	12,752,035	3.46%
2006/07	4,540,457	3,262,092	638,027	764,935	1,264,960	3,600,963	2,844,147	2,121,519	17,705,198	29.49%
2007/08	4,579,395	3,333,027	649,141	769,579	1,273,970	3,599,834	2,831,833	2,160,649	19,037,100	38.84%
2008/09	4,565,075	3,358,785	645,520	763,627	1,253,828	3,559,192	2,785,930	2,164,078	19,197,428	0.84%
2009/10	4,538,075	3,335,859	646,014	758,831	1,253,444	3,568,388	2,749,422	2,152,389	19,002,421	-1.02%
2010/11	4,568,020	3,362,490	643,497	761,072	1,253,604	3,568,755	2,741,126	2,172,166	19,070,730	0.36%
2011/12	9,179,990	6,929,110	1,295,433	1,524,931	2,541,760	7,222,200	5,518,649	4,361,007	38,573,080	102.26%



Notes:

The San Joaquin Valley Unified Air Pollution Control District encompasses all of Fresno, Kings, Madera, Merced, San Joaquin, Stanislaus, Tulare, and the valley portion of Kern County.

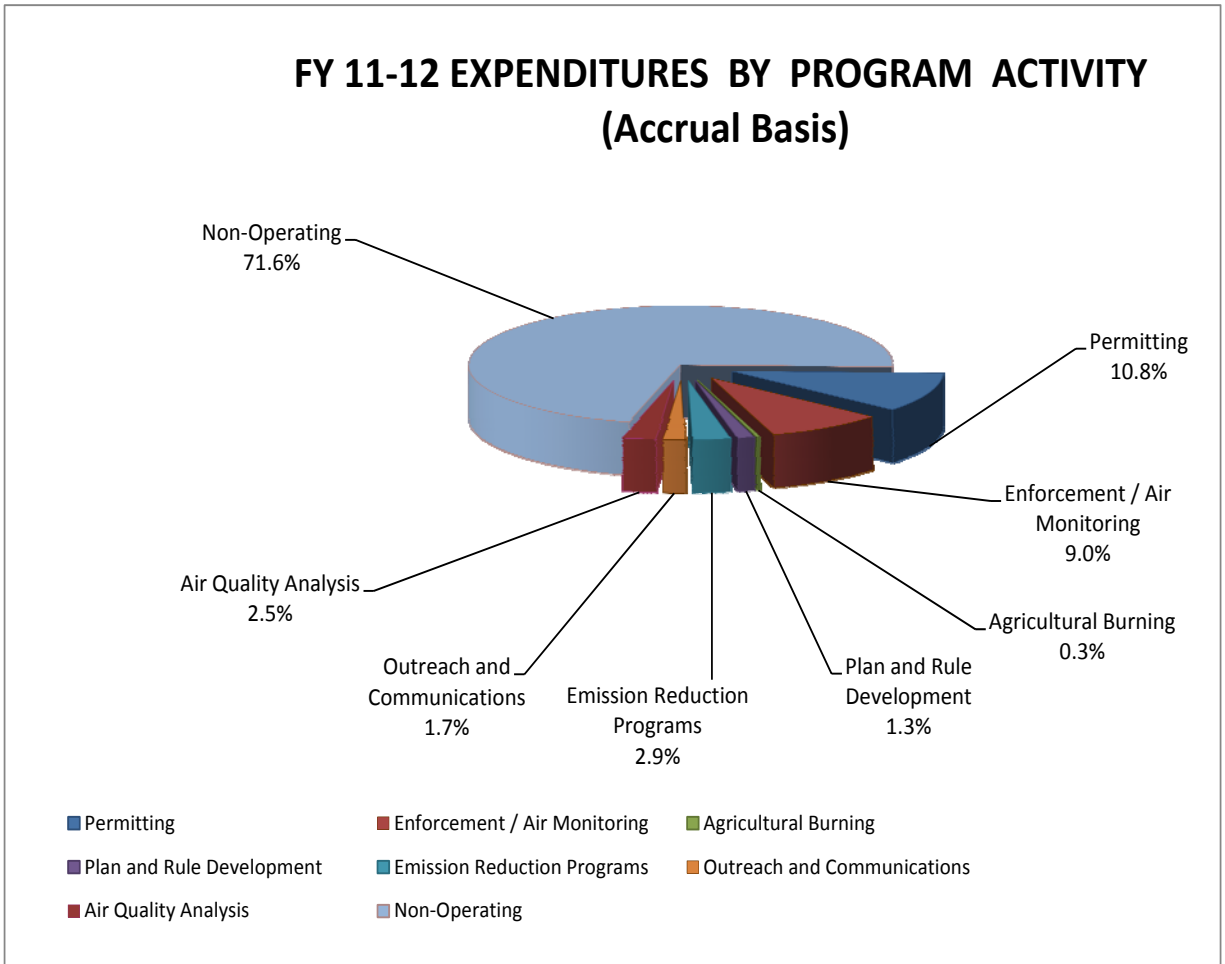
Starting in 2011/12 total DMV Surcharge Fees include funds from AB2766, AB2522, SB709, and AB923.

Source: California Department of Motor Vehicles

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

**EXPENDITURES BY PROGRAM ACTIVITY - (Accrual Basis)
Last Five Fiscal Years**

Program Activity	2007-08	2008-09	2009-10	2010-11	2011-12
Permitting	\$ 12,053,583	\$ 12,262,847	\$ 12,758,531	\$ 13,835,586	\$ 14,170,277
Enforcement / Air Monitoring	11,020,138	11,105,333	11,760,658	11,063,271	11,780,877
Agricultural Burning	1,180,869	1,169,500	937,312	1,000,541	330,116
Plan and Rule Development	2,062,228	2,484,135	2,034,991	2,054,340	1,696,327
Emission Reduction Programs	2,284,463	2,840,067	3,315,001	3,399,671	3,778,290
Outreach and Communications	2,187,232	2,275,970	2,320,601	2,251,876	2,215,619
Air Quality Analysis	1,234,496	1,156,358	1,560,082	3,022,735	3,335,839
Non-Operating	40,453,003	24,871,936	31,546,321	60,727,740	94,235,828
Total Expenditures	\$ 72,476,012	\$ 58,166,146	\$ 66,233,497	\$ 97,355,760	\$ 131,543,173

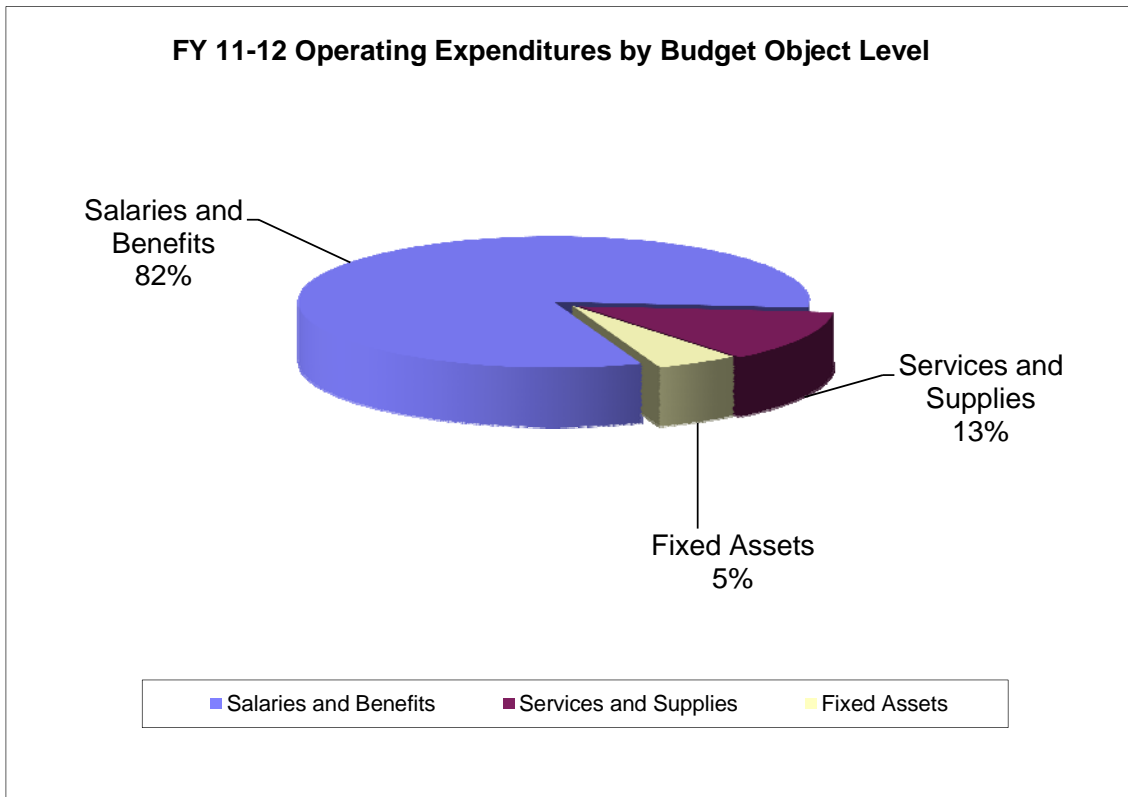


Source:
San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

**OPERATING EXPENDITURES BY BUDGET OBJECT LEVEL
Last Ten Fiscal Years**

Fiscal Year	Salaries and Benefits	Services and Supplies	Fixed Assets	Total Operating Expenditures
2002/03	\$ 15,135,708	\$ 3,570,051	\$ 1,354,016	\$ 20,059,775
2003/04	17,083,592	3,673,348	1,741,708	22,498,648
2004/05	19,824,791	4,038,448	1,617,469	25,480,708
2005/06	21,693,531	4,463,578	1,273,182	27,430,291
2006/07	23,479,039	3,814,644	4,786,429	32,080,112
2007/08	24,195,285	4,246,694	2,854,440	31,296,419
2008/09	26,171,573	5,099,751	1,543,520	32,814,844
2009/10	27,209,307	5,094,841	2,183,316	34,487,464
2010/11	29,722,716	4,997,940	958,072	35,678,728
2011/12	30,335,317	4,731,489	1,958,679	37,025,485



Source:
San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

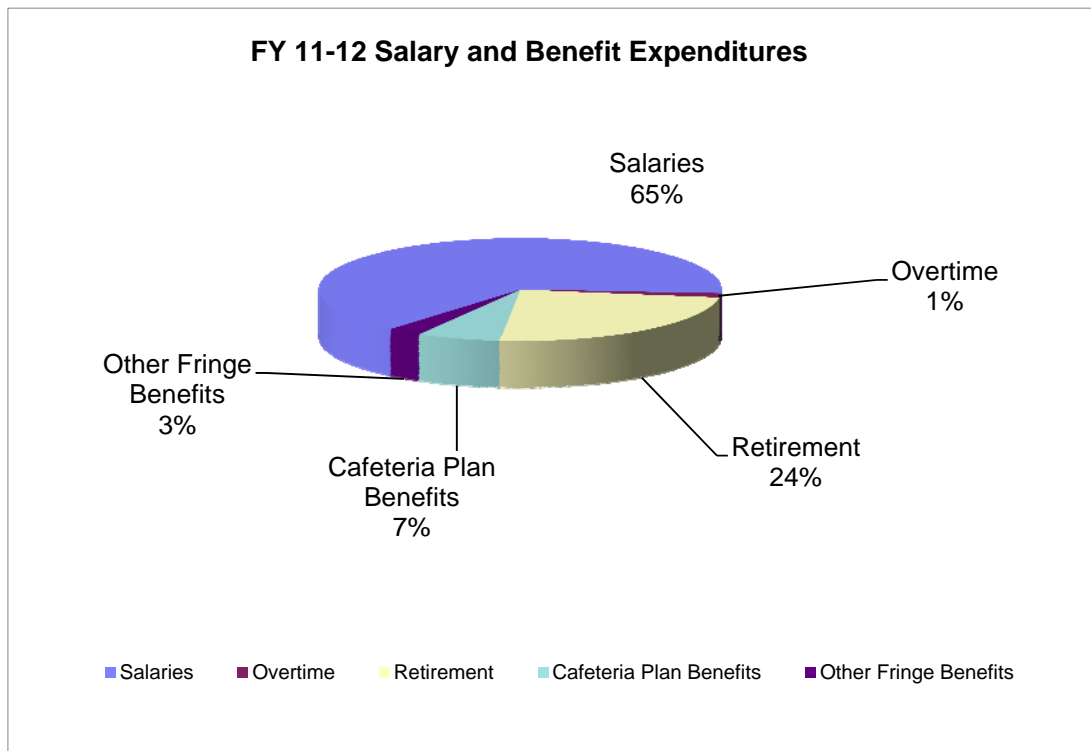
**SALARY AND BENEFIT EXPENDITURES
Last Ten Fiscal Years**

Fiscal Year	Salaries	Overtime	Retirement	Cafeteria Plan Benefits	Other Fringe Benefits	Total Salaries and Benefits
2002/03	\$ 11,431,697	\$ 251,189	\$ 1,722,223	\$ 1,255,852	\$ 474,747	\$ 15,135,708
2003/04	12,760,813	226,307	1,995,013	1,398,170	703,289	17,083,592
2004/05	14,325,161	269,618	2,701,422	1,572,390	956,200	19,824,791
2005/06	14,850,007	254,625	4,040,114	1,700,021	848,764	21,693,531
2006/07	15,512,732	299,691	5,208,586	1,792,819	665,201	23,479,029
2007/08	16,267,143	276,813	5,078,432	1,909,038	663,859	24,195,285
2008/09	18,065,322	320,202	4,962,833	2,074,820	748,396	26,171,573
2009/10	18,492,855	321,901	5,653,041	2,020,012	721,498	27,209,307
2010/11	19,655,967	338,115	6,962,404	2,006,418	759,812	29,722,716
2011/12	19,729,937	402,265	7,331,907	2,034,625	836,583	30,335,317

Notes:

Salaries Includes: Regular Salaries, Temporary Help, and On Call Pay.

Other Fringe Benefits Includes: Unemployment Insurance, OASDI Insurance, Worker's Compensation Contributions, Long Term Disability Insurance, and Alternate Transportation Incentive.



Source:

San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

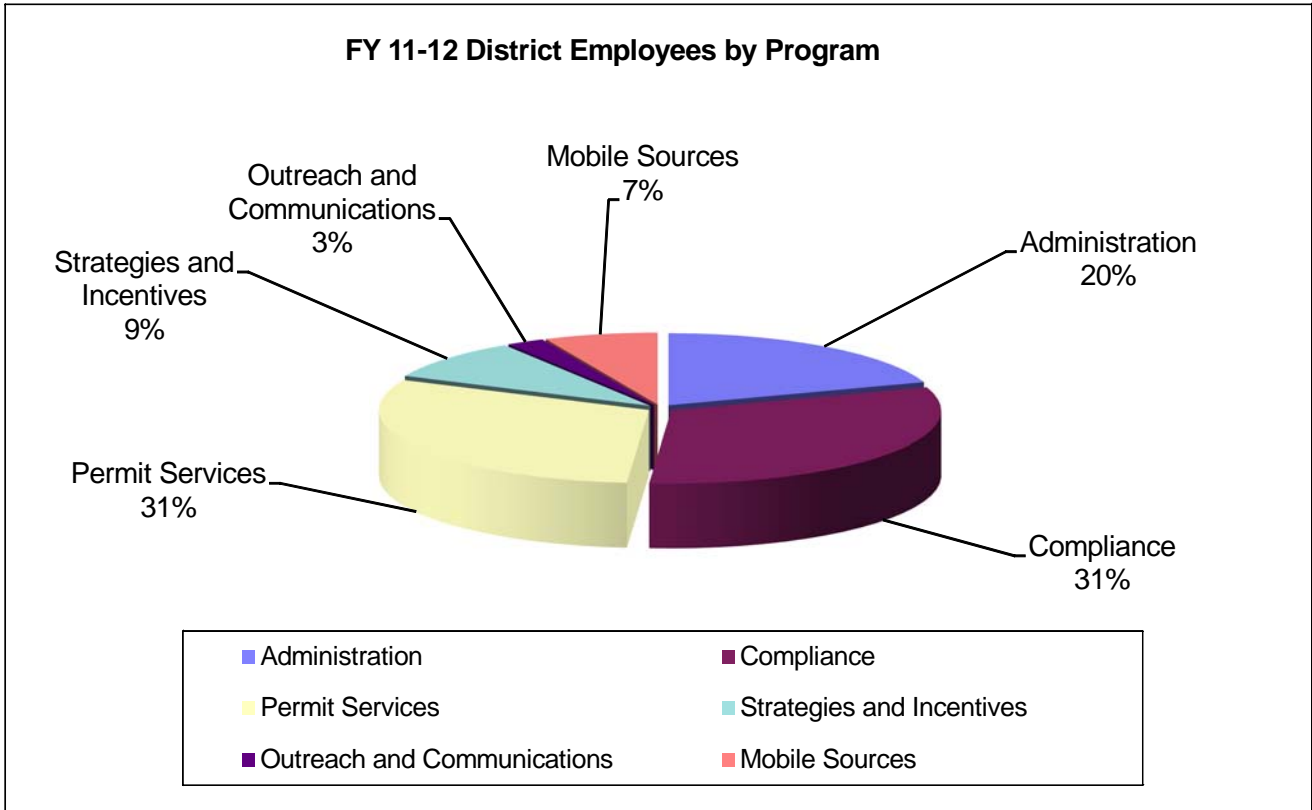
SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

DISTRICT EMPLOYEES BY PROGRAM

Adjusted Budget @ June 30

Last Ten Fiscal Years

Fiscal Year	Administration	Compliance	Permit Services	Strategies and Incentives	Outreach and Communications	Mobile Sources	Total Employees
2002/03	42	71	73	39	6	9	240
2003/04	49	78	89	40	6	9	271
2004/05	48	83	85	44	8	10	278
2005/06	50	83	89	45	8	14	289
2006/07	52	83	99	35	8	14	291
2007/08	60	85	95	36	7	23	306
2008/09	62	88	95	36	7	23	311
2009/10	61	97	94	28	7	21	308
2010/11	61	97	94	28	7	21	308
2011/12	61	97	94	28	7	21	308

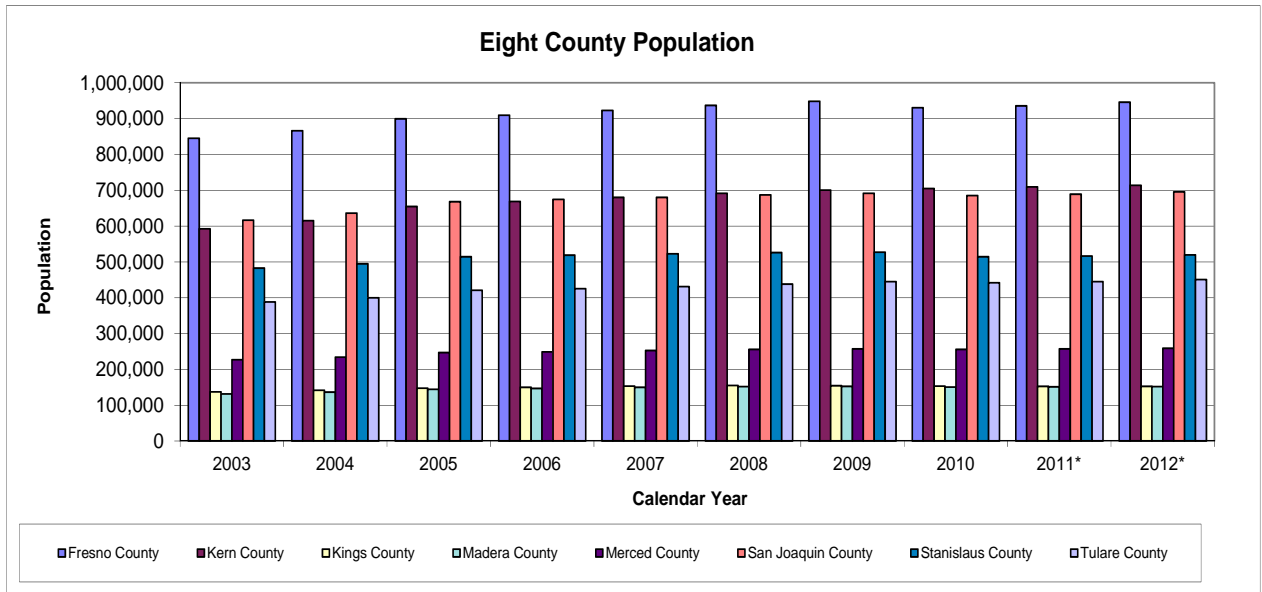


Source:
San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

EIGHT COUNTY POPULATION Last Ten Calendar Years

Year	Fresno County	Kern County	Kings County	Madera County	Merced County	San Joaquin County	Stanislaus County	Tulare County	Total	% Increase
2003	845,600	592,500	137,400	131,500	227,000	616,500	483,000	388,600	3,422,100	2.75%
2004	866,500	615,200	141,500	136,900	234,200	636,500	494,800	400,100	3,525,700	3.03%
2005	899,500	655,100	147,700	144,400	246,800	668,300	514,400	420,600	3,696,800	4.85%
2006	909,400	668,900	149,800	147,200	249,100	674,300	519,300	425,600	3,743,600	1.27%
2007	923,100	680,300	153,300	149,900	252,500	680,200	523,100	431,000	3,793,400	1.33%
2008	936,800	691,800	155,000	151,900	256,100	687,000	526,000	438,300	3,842,900	1.30%
2009	948,500	700,500	154,700	152,900	257,000	691,700	527,100	445,000	3,877,400	0.90%
2010	930,450	705,300	152,982	150,865	255,793	685,306	514,453	442,179	3,837,328	-1.03%
2011*	936,089	709,400	152,533	151,658	257,098	689,160	516,244	445,183	3,857,365	0.52%
2012*	945,711	714,000	152,419	152,074	258,736	695,750	519,940	450,840	3,889,470	0.83%



* Estimated population

Notes:

The San Joaquin Valley Unified Air Pollution Control District encompasses all of Fresno, Kings, Madera, Merced, San Joaquin, Stanislaus, Tulare, and the valley portion of Kern County.

Source: California State Department of Finance - Demographic Research Unit - (SJVUAPCD Portion of Kern County estimated at 84%)

San Joaquin Valley Unified Air Pollution Control District

Demographic and Miscellaneous Statistics

District Established:	March 21, 1991
Area Covered:	25,000 Square Miles
Counties Included in District:	San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings, Tulare, and the Valley portion of Kern County
Population:	3,877,400 (2010)
Transportation:	Two Transcontinental Railroads – Burlington Northern, Santa Fe and the Union Pacific Six Commercial Airports – Stockton Metro, Modesto, Merced Municipal, Fresno Yosemite, Visalia Municipal, and Meadows Field (Bakersfield) Two Major Interstate Freeways – California State Highway 99 and U.S. Interstate Highway 5 One Major Port – Port of Stockton
Visitor Destinations:	Yosemite National Park, Kings Canyon, National Park, Sequoia National Park
Number of Registered Vehicles:	2,643,000 (6/30/12) Estimate
Stationary Sources of Air Pollution	Oil Refineries, Oil Production Equipment, Power Regulated Plants, Manufacturing and Processing Facilities, Boilers and other Combustion Equipment, Emergency Generators, Paint Spray Booths, Service Stations, Agricultural Operations, and Dry Cleaners
Number of Sources:	Approximately 13,700 operating locations with more than 33,000 Permits to Operate and 6,200 Agricultural Conservation Management Practice Plans
Number of Air Monitoring Stations:	29, District, ARB, Tribal, and National Park Service Combined (Including 2 Lower Air Profilers)
District Full-time Authorized Positions:	308
Adopted FY 2012-13 Budget:	\$226,331,722

Northern Region

Serving San Joaquin, Stanislaus and Merced counties

4800 Enterprise Way

Modesto, CA 95356-8718

(209) 557-6400 FAX (209) 557-6475

Central Region

Serving Madera, Fresno and Kings counties

1990 E. Gettysburg Avenue

Fresno, CA 93726-0244

(559) 230-6000 FAX (559) 230-6061

Southern Region

Serving Tulare and Valley air basin portions of Kern counties

34946 Flyover Court

Bakersfield, CA 93308-9725

(661) 392-5500 FAX (661) 392-5585