

South Coast Air Quality Management District

Diamond Bar, California



YEAR ENDED

JUNE 30, 2005

Comprehensive Annual Financial Report





MISSION STATEMENT

The South Coast AQMD believes all residents have a right to live and work in an environment of clean air and is committed to undertaking all necessary steps to protect public health from air pollution with sensitivity to the impacts of its actions on the community and businesses.

South Coast
Air Quality Management District

Diamond Bar, California

Comprehensive Annual Financial Report

Year Ended June 30, 2005

Prepared by:
Finance Office
Patrick H. Pearce, Chief Financial Officer

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Comprehensive Annual Financial Report
Year Ended June 30, 2005

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SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

GOVERNING BOARD

June 30, 2005

WILLIAM A. BURKE, Ed.D
*Chairman
Speaker of the Assembly Appointee*

S. ROY WILSON, Ed.D.
*Vice-Chairman
County of Riverside Representative*

MICHAEL D. ANTONOVICH
County of Los Angeles Representative

JAN PERRY
*County of Los Angeles
Cities Representative
Western Region*

JANE CARNEY
Senate Rules Committee Appointee

MIGUEL A. PULIDO
*County of Orange
Cities Representative*

BEATRICE J. S. LAPISTO-KIRTLEY
*County of Los Angeles
Cities Representative
Eastern Region*

JAMES W. SILVA
County of Orange Representative

RONALD O. LOVERIDGE
*County of Riverside
Cities Representative*

CYNTHIA VERDUGO-PERALTA
Governor's Appointee

GARY OVITT
County of San Bernardino Representative

DENNIS YATES
*County of San Bernardino
Cities Representative*

BARRY R. WALLERSTEIN, D.Env.
Executive Officer



South Coast Air Quality Management District

21865 Copley Drive, Diamond Bar, CA 91765-4178
(909) 396-2000 • www.aqmd.gov

November 4, 2005

Chairman, Governing Board and Citizens
Of the South Coast Air Quality Management District

State law requires that local governments publish within six months of the close of each fiscal year a complete set of audited financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report is published to fulfill that requirement for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of the South Coast Air Quality Management District (AQMD), Diamond Bar, California. Management assumes full responsibility for the completeness and reliability of all of the information presented in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

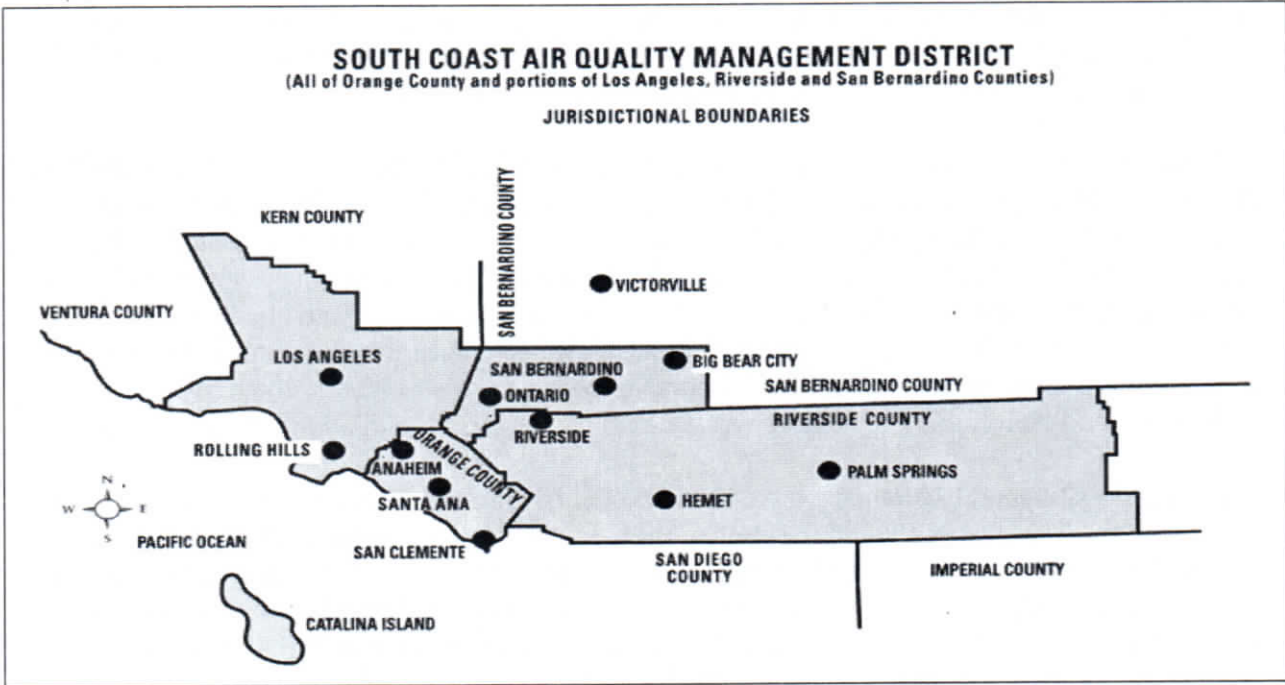
The AQMD's financial statements have been audited by Simpson and Simpson, Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the AQMD for the fiscal year ended June 30, 2005 are free of material misstatements. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified (clean) opinion that the AQMD financial statements for the fiscal year ended June 30, 2005 are fairly presented in conformity with accounting principles generally accepted in the United States. The independent auditor's report is located at the front of the financial section of this report.

The independent audit of the financial statements of the AQMD was part of a broader, federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. These reports are available in the AQMD's separately issued Single Audit Report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the South Coast Air Quality Management District

The South Coast Air Quality Management District began operation on February 1, 1977 as a regional governmental agency established by the California Legislature pursuant to the Lewis Air Quality Management Act. The AQMD encompasses all of Orange County and parts of Los Angeles, San Bernardino and Riverside Counties, representing over 15 million residents. It succeeded the Southern California Air Pollution Control District and its predecessor four county air pollution control districts, of which the Los Angeles County Air Pollution Control District was the oldest in the nation, having been formed in 1947.



The AQMD Governing Board is composed of 12 members, including four members appointed by the Boards of Supervisors of the four counties in AQMD’s jurisdiction, five members appointed by cities in the AQMD’s jurisdiction and three members appointed by the Governor, the Speaker of the State Assembly and the Rules Committee of the State Senate, respectively. The members appointed by the various Boards of Supervisors and cities consist of one member of the Board of Supervisors of Los Angeles, Orange, Riverside, and San Bernardino Counties, respectively, and a mayor or member of the city council of a city within Orange, Riverside and San Bernardino Counties. Los Angeles County cities have two representatives, one each from the western and eastern portions of the county. Each Board member serves a four year term. The Board appoints the agency’s Executive Officer and District Counsel. The Executive Officer in turn appoints the heads of the various agency departments.

Southern California has the most serious air quality problem in the country. A combination of poor atmospheric ventilation, a capping temperature inversion, bordering mountains and sunny days act to enhance smog formation and effectively trap pollutants in the Basin. The AQMD is responsible for monitoring air pollution within the Basin and for developing and administering programs to reduce air pollution levels below the health-based standards established by the state and federal governments.

The AQMD provides a full range of air pollution control activities, including permitting, site inspection, air quality attainment planning, rule making, air quality monitoring and technology advancement. Government Accounting Standards Board Statement No. 14 requires that certain separate but related component units be included with the AQMD for reporting purposes. This report includes the South Coast Air Quality Management District Building Corporation (Corporation) as a discretely presented component unit. This is presented in a separate column in the basic financial statements to distinguish the financial position and operations of the AQMD from its component unit. The AQMD may impose its will on the component unit, including the ability to appoint, hire, reassign or dismiss management. There are also financial benefit/burden relationships between the AQMD and the Corporation. For additional information, see Note 1 to the financial statements.

The annual budget serves as the foundation for the AQMD's financial planning and control. The Governing Board is required to adopt an annual budget by July 1 of each fiscal year. The AQMD's annual appropriated budgets are adopted for the general fund. Budgets are adopted on a budgetary basis that includes encumbrances as expenditures. All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered. Amendments to increase the budget must be approved by the Governing Board. Budgets for special revenue funds are not adopted due to the narrow focus (advance technology demonstration projects/emission reduction projects) and limited life of many of these special revenues. Expenditures from the special revenue funds are limited to contractual obligations that require Governing Board approval. All work to account for and track special fund projects is included within the General Fund budget.

The AQMD maintains budgetary controls through both signature authority and automated budget checking. The objective of these controls is to ensure compliance with the annual appropriated budget approved by the Governing Board. The AQMD maintains an encumbrance accounting system of purchase orders and contracts at the fund level as a means of accomplishing budgetary control. Open encumbrances are reported as a reservation of fund balance at the end of the fiscal year. Purchase orders and contracts are reviewed to ensure that funds are available and that requests are properly authorized prior to being released or executed.

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.

As reflected in the statements and schedules included in the financial section of this report, the AQMD continues to meet its responsibility for sound financial management.

Factors Affecting Financial Condition

The AQMD is a fee-supported agency and does not receive sales or property tax support. Approximately 67% of its funding is derived from fees paid by stationary sources that emit air pollution; 18% from auto registration fees collected by the Department of Motor Vehicles and distributed to air districts throughout the state in support of motor vehicle emission reduction programs; 10% from federal and state grants and subventions; and the remainder from general revenues such as penalties/settlements, lease revenue and interest earnings.

To meet its program commitments, despite increased workload complexity, the AQMD has successfully streamlined many of its operations, reducing the cost of its programs. Compared to the 1991-92 fiscal year, 2004-05 expenditures reflect staffing levels that are 35% (409 FTEs) below 1991-92 levels and expenditures which are \$6.1 million (5.6%) below 1991-92 levels. When adjusted for inflation, this year's expenditures were 34.2% less than the 1991-92 period.

This year's revenues and expenditures represent both significant expenditure savings as a result of higher employee vacancy rates, deferred contract and capital equipment expenditures, and revenues which exceeded estimates due to a significant penalty settlement of \$6 million. While the AQMD does not recover its activity costs fully from fees, support in the form of state subvention and federal grants, and general revenues offset much of the shortfall.

For fiscal year 2005-06, the employer contribution rates to our pension systems will continue to increase due primarily to three years of low or negative investment returns in pension system portfolios and changes to the actuarial assumptions reflecting AQMD's aging workforce. Because AQMD fee rate increases have not kept up with the increases in retirement cost, additional reductions in staffing, contract and equipment expenditure and the use of approximately \$4 million from the unreserved fund balance will be required for fiscal year 2005-06.

Long-term financial planning

Unreserved fund balance in the general fund (40 percent of total general fund revenues) is above the policy guidelines set by the Board for budgetary and planning purposes (i.e., to maintain an unreserved fund balance at 15% of general fund revenues). Much of this large balance is due to two significant penalty settlements reached in June 2004 and May 2005 with air pollution violators which resulted in combined penalties of approximately \$15 million to the general fund. This unreserved fund balance will be used to make-up the gap between expenditures and revenues over the next three years as the Board and staff work to develop new revenue streams and adjust fees where applicable to recover the agency's program costs.

Relevant financial policies

Cash Management

The County of Los Angeles provides treasury management services to the AQMD. Cash resources of the individual AQMD funds are invested as part of Los Angeles County's Pooled Surplus Investment Portfolio and Special Purpose Investments. Investments are consistent with AQMD adopted investment policy, with the majority of the maturities under one year. The

investment policy authorizes investments in United States treasury bills, bonds and notes, obligations issued by agencies of the United States Government, bankers acceptances, commercial paper, medium term notes, certificates of deposit, and the State's Local Agency Investment Fund. The AQMD's portfolio at June 30, 2005 is \$283,332,452.

The AQMD Governing Board annually reviews and approves its investment policy and the appointment of its treasurer. Monthly investment reports are submitted by the Chief Financial Officer to the Governing Board detailing investment activities and portfolio balances. Quarterly reports are submitted to the Governing Board, Investment Oversight Committee and auditor. The primary objective of the AQMD's investment policy is to ensure money in the Treasury not required for the immediate needs of AQMD is prudently invested to preserve principal and provide necessary liquidity, while earning a market average rate of return.

Risk Management

AQMD manages its risks of property and liability losses through a combination of commercial insurance and self-insurance programs. Commercial insurance coverages are obtained with assistance from a large brokerage firm, Aon Risk Services. AQMD maintains all risk property coverage with replacement cost valuation for insurable values of approximately \$121.5 million. Difference in conditions coverages (earthquake and flood) has limits of \$25 million.

AQMD has been self-insured since June 1, 1986 for workers' compensation, general liability, and automobile liability claims. AQMD utilizes the services of a state-certified third-party claims administrator to manage claims with a dedicated claims examiner. General and automobile liability claims are also handled by a third-party administrator. Due to the unpredictability of judgments in workers' compensation or liability claims, AQMD also maintains excess liability coverage's over self-insured retentions for individual workers' compensation claims in excess of \$600,000, and liability claims in excess of \$1,000,000. Designations in the fund balance of \$2,000,000 for self-insurance and \$80,000 for unemployment claims are maintained.

Loss control activities are managed by AQMD's Risk Management staff. Staff performs loss prevention inspections and employee safety training to minimize potential human and property losses, and establish compliance with Cal/OSHA regulations.

Pension Benefits

The AQMD provides its full-time employee's retirement and disability benefits, annual cost of living adjustments and death benefits to members and their beneficiaries through two multi-employer defined benefit pension plans; the San Bernardino County Employees' Retirement Association (SBCERA) and the Los Angeles County Employees' Retirement Association (LACERA). The AQMD makes contributions to the plans based on amounts determined by each retirement plan actuary. The AQMD does not have safety employees and does not provide postretirement health care benefits. In June 2004, the AQMD issued \$47 million in taxable pension obligation bonds to retire the Unfunded Actuarial Accrued Liability due to SBCERA. The AQMD realized a reduction of 5.61% in its FY 2004-05 retirement rates.

Major initiatives

To continue our progress toward meeting federal and state health standards, the AQMD has implemented several innovative programs in recent years such as market-based incentives (RECLAIM), permit streamlining, source education, business assistance, and technology advancement.

During the next year and beyond, the AQMD will continue to develop control measures to reduce smog-forming and toxic air pollutants; pursue a federal waiver allowing for the continued implementation of all of its fleet rules; expand its Environmental Justice Programs and pursue its legislative goals.

Program to Clean Up Gross Polluting Vehicles

On September 9, 2005, the AQMD approved a landmark \$4 million voluntary program to detect highly polluting passenger vehicles and provide incentives to repair them or scrap and replace them. Gross-pollution vehicles make up about 10 percent of the passenger vehicle fleet, and yet they are responsible for at least 50 percent of the air pollution from that fleet. The \$4 million pilot program – the only one in the nation to include both remote sensing and a voluntary repair/replacement component – will encompass the remote sensing of approximately 1 million vehicles, followed by repair and scrapping of about 1,000 to 2,000 of the highest-emitting ones.

Control Measures to Reduce Emissions from Agricultural Sources

The AQMD has adopted changes to three of its regulations governing agricultural sources previously exempted by state law from air pollution regulations. Specifically, the rule amendments will require all agricultural sources to control fugitive dust emissions by January 1, 2006 by using the best control measures available; and require agricultural sources to meet the same emission standards as stationary source engines. Overall, the new measures are expected to reduce approximately 142 tons per year of volatile organic compounds and 99 tons per year of carbon monoxide.

Financial Incentives to Refuel Natural Gas Vehicles at Home

The AQMD approved \$400,000 in financial incentives to assist consumers interested in driving natural gas vehicles and refueling them from the convenience of their own homes. The refueling appliance – marketed under the name “Phill” – is expected to cost about \$3,500. Incentive funding offered by the AQMD and the Mobile Source Reduction Review Committee (MSRC) will total \$2,000 per unit for a total of 400 units, lowering the cost of each unit to \$1,500 for the consumer. Driving a compressed natural gas (CNG) vehicle can cut fuel cost in half. The refueling unit is a small, compact gas compressor capable of providing convenient overnight home refueling for CNG vehicles. The appliance is safe, lightweight, and can deliver 3,000 to 3,600 pounds per square inch gauge of natural gas.

Awards and Acknowledgements

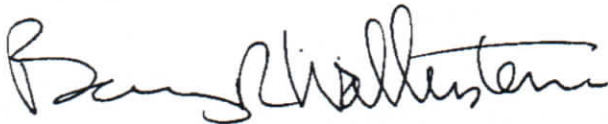
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the South Coast Air Quality Management District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award

recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The Comprehensive Annual Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

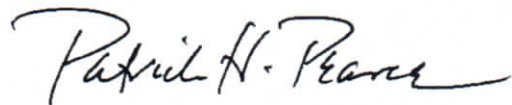
The preparation of our comprehensive annual financial report was made possible by the dedicated services of the accounting, financial analyst and management staff of the Finance Office. These members have our sincere appreciation for the contribution made in the preparation of this report.

Recognition is also given to the Governing Board for their leadership and support and to all employees of the AQMD who continue to push technology and improve operations to accomplish AQMD's mission of protecting public health from air pollution with sensitivity to the impacts of its actions on the community and businesses.

Respectfully submitted,



Barry R. Wallerstein, D.Env.
Executive Officer



Patrick H. Pearce, CGFM
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

South Coast Air Quality
Management District (AQMD),
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

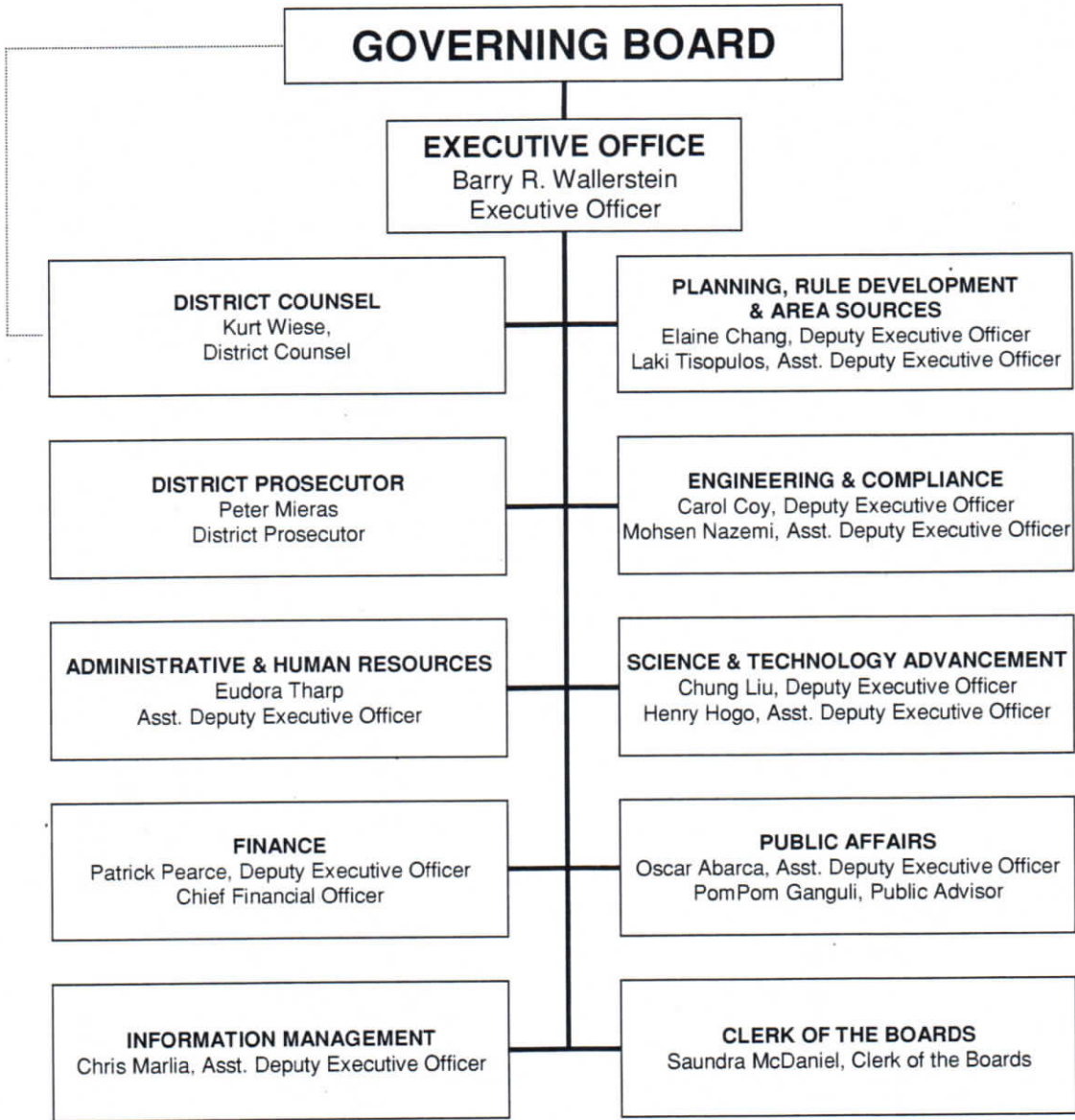
President

Jeffrey R. Egan

Executive Director

South Coast Air Quality Management District, California Organizational Chart

June 30, 2005





SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

*The Governing Board of
South Coast Air Quality Management District*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the South Coast Air Quality Management District (AQMD), as of and for the year ended June 30, 2005, which collectively comprise the AQMD's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the AQMD'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the AQMD, as of June 30, 2005, and the respective changes in financial position and cash flows of its proprietary funds 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 a report dated November 4, 2005 on our consideration of the AQMD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (MD&A) on pages 3 through 19 and the required supplementary information other than MD&A, as listed in the accompanying table of contents, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the AQMD's basic financial statements. The other supplementary information identified in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the AQMD. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



The information identified in the accompanying table of contents as the introductory and statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the AQMD. Such information has not been subjected to the auditing procedures applied in the audit of the AQMD's basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, appearing to read 'Simpson & Simpson'.

Los Angeles, California
November 4, 2005

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

As management of the South Coast Air Quality Management District (AQMD), we offer readers of the AQMD's financial statements this narrative overview and analysis of the financial activities of the AQMD for fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal which can be found on pages ii – viii of this report.

A. Financial Highlights

- The assets of AQMD exceeded its liabilities at the close of the most recent fiscal year by \$245.8 million (net assets). Of this amount, \$12.7 million (unrestricted net assets), may be used to finance the AQMD's day-to-day operations.
- The AQMD's total net assets increased by \$38.4 million primarily due to one-time payment of penalties and settlements for air pollution violations, reduced spending especially on capital assets and the amount of contracts for professional services.
- As of the close of the fiscal year, the AQMD's governmental funds reported combined ending fund balances of \$276.9 million, an increase of \$36.7 million in comparison to the prior year.
- Of the \$276.9 million combined ending fund balances, \$49.8 million represents the fund balance of the General Fund.
- Out of the total General Fund balance of \$49.8 million at the end of the fiscal year, \$45 million represents the unreserved fund balance of which \$9.6 million represents designated uses. The undesignated balance was \$35.4 million, or 33.8 percent of general fund expenditures.
- The AQMD's long term debt decreased by \$5.8 million or 4%.

B. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the AQMD's basic financial statements. The AQMD's basic financial statements have three components: 1) Government-wide Financial Statements; 2) Fund Financial Statements; and 3) Notes to the Basic Financial Statements. This report also contains supplementary information in addition to the basic financial statements.

In general, the purpose of financial reporting is to provide the external parties that read 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

AQMD, 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 AQMD. These financial statements are constructed around the concept of a primary government and its component unit, excluding fiduciary funds. The financial statements of the AQMD's fiduciary funds are not included in the government-wide financial statements because these funds cannot be used to finance the AQMD's activities.

The government-wide financial statements are designed to provide readers with a broad overview of the AQMD'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 AQMD using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. The difference between the two is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the AQMD is improving or declining.

The statement of activities presents information showing how AQMD's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as earned but unused vacation leave.

The AQMD's government-wide financial statements are presented on pages 20 to 21.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The AQMD, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the AQMD can be divided into three categories:

- a. governmental funds,
- b. proprietary funds, and
- c. fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. 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. The government-wide statements are prepared on the full accrual basis.

In general, these financial statements prepared under the modified accrual basis have a short-term emphasis, and for the most part, measure and account for cash and other assets that can easily be converted to cash. Specifically, cash and receivables that are collectible

within a very short period of time are reported on the balance sheet. The capital assets such as land and buildings are not reported.

Fund liabilities include amounts that are to be paid within a very short period of time after the end of the fiscal year. The long-term liabilities are not included. The difference between a fund's total assets and total liabilities represents the fund balance. The unrestricted portion indicates the amount available to finance future activities.

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 between the total fund balances can be found on page 23.

The reconciliation of the total change in fund balances for all governmental funds to the change in net assets can be found on page 25.

The AQMD maintains 24 individual special revenue funds in addition to the General Fund. Five of the special revenue funds are considered major funds. The information for the major special revenue funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Data for the other 19 non-major special revenue funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is reported in the Other Supplementary Information section of this report.

The AQMD adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. This is presented in the Required Supplementary Information section of this report.

The basic governmental fund statements can be found on pages 22 and 24 of this report.

Proprietary Funds

When the AQMD charges for store merchandise or CNG fuel, whether to outside customers or within the AQMD, the transactions are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the government-wide financial statements only in more detail. A statement of cash flows, for instance, is presented at the fund financial statement level for proprietary funds but no equivalent statement is presented in the government-wide financial statements for either governmental activities or business-type activities.

The AQMD's proprietary fund financial statements for the Clean Air Store and the Compressed Natural Gas (CNG) Fueling Station are presented on pages 26 to 28.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside AQMD. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the AQMD's own

programs. The fund financial statements consist of a Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. The accounting used for fiduciary funds is much like that is used for proprietary funds.

The AQMD's fiduciary fund financial statements for the Agency Funds and Retirement Benefit Trust Fund are presented on pages 29 and 30.

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 to the basic financial statements can be found on pages 31 to 52 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Required Supplementary Information section concerning the General Fund's budgetary comparison schedule and budgetary reconciliation. Required supplementary information can be found on pages 53-55 of this report.

Individual fund data for each of the non-major governmental funds is included in the Other Supplementary Information section. This section can be found on pages 56-67 of this report.

C. Government-wide Financial Analysis

Our analyses focus on the net assets and changes in net assets of the AQMD's governmental and business-type activities.

The following schedule lists a condensed Statement of Net Assets as of June 30, 2005 compared with the prior fiscal year:

	Net Assets (In Thousands)					
	Governmental Activities		Business-Type Activities		TOTAL	
	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2003-04</u>
Current and Other Assets	\$ 304,996	\$ 263,561	\$ 89	\$ 71	\$ 305,085	\$ 263,632
Prepaid Pension Asset	46,630	46,375	-	-	46,630	46,375
Capital Assets	54,784	58,484	400	487	55,184	58,971
Total Assets	<u>406,410</u>	<u>368,420</u>	<u>489</u>	<u>558</u>	<u>406,899</u>	<u>368,978</u>
Long-term Liabilities Outstanding	131,816	137,625	-	-	131,816	137,625
Other Liabilities	28,764	23,339	7	9	28,771	23,348
Total Liabilities	<u>160,580</u>	<u>160,964</u>	<u>7</u>	<u>9</u>	<u>160,587</u>	<u>160,973</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	6,049	5,234	400	487	6,449	5,721
Restricted	227,089	198,797	-	-	227,089	198,797
Unrestricted	12,692	3,425	82	62	12,774	3,487
Total Net Assets	<u>\$ 245,830</u>	<u>\$ 207,456</u>	<u>\$ 482</u>	<u>\$ 549</u>	<u>\$ 246,312</u>	<u>\$ 208,005</u>

As noted earlier, net assets may serve over time as a useful indicator of the AQMD's financial position. At the close of the most recent fiscal year, the AQMD's assets exceeded liabilities by \$245.8 million.

The largest portion of the AQMD's net assets (92.3%) is restricted. The specific revenue sources in special revenue funds are restricted to expenditures for specific purposes. Approximately 2.5% of the AQMD's net assets reflects its investment in capital assets used by AQMD (e.g. land, buildings, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding. The AQMD uses these capital assets in carrying out its mission of protecting public health while being sensitive to the economic needs of local businesses. Consequently, these assets are not available for future spending. Although the AQMD's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining portion of the AQMD's net assets (5.2%) is unrestricted. At the end of the current fiscal year, the AQMD is able to report positive balances in all three categories of net assets, both for the District as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$38.4 million during the current fiscal year. Most of the increase represents the one-time receipt of penalties and settlements for air pollution violations. The remainder largely represents 6% fee increase on permits and increases in investment earnings.

Total revenues increased by \$34.1 million or 20.4% and total expenses decreased by \$7.8 million or 4.6% compared with the prior fiscal year. General revenues reflect an overall increase of \$1.7 million while program revenues increased by \$32.4 million, mostly from one-time settlement of an enforcement case against BP West Coast Products and increase in vehicle registrations.

The following schedule lists a condensed Changes in Net Assets for the fiscal year ending June 30, 2005 compared with the prior fiscal year:

	Changes in Net Assets (In Thousands)					
	Governmental Activities		Business-type Activities		TOTAL	
	FY 2004-05	FY 2003-04	FY 2004-05	FY 2003-04	FY 2004-05	FY 2003-04
Revenues:						
Program Revenues:						
Fees and Charges – Stationary Sources	\$ 64,925	\$ 61,933	\$ -	\$ -	\$ 64,925	\$ 61,933
Fees and Charges – Mobile Sources	14,717	10,787	-	-	14,717	10,787
Operating Grants and Subventions	8,101	9,679	-	-	8,101	9,679
Restricted Special Revenue Sources	87,747	60,731	-	-	87,747	60,731
Clean Air Store/CNG Fuel Sales	-	-	97	90	97	90
General Revenues:						
Grants and Subventions – Not Restricted to Specific Programs	2,965	2,962	-	-	2,965	2,962
Mobile Sources – Not Restricted to Specific Programs	6,283	6,230	-	-	6,283	6,230
Penalties and Settlements	11,296	12,232	-	-	11,296	12,232
Interest	1,274	846	-	1	1,274	847
Other Revenues	3,361	1,209	-	-	3,361	1,209
Total Revenues	200,669	166,609	97	91	200,766	166,700
Expenses:						
Advance Clean Air Technology	4,945	7,226	-	-	4,945	7,226
Ensure Compliance with Clean Air Rules	37,106	38,271	-	-	37,106	38,271
Customer Service	10,369	10,887	-	-	10,369	10,887
Develop Programs to Achieve Clean Air	6,997	7,858	-	-	6,997	7,858
Develop Rules to Achieve Clean Air	8,010	7,862	-	-	8,010	7,862
Monitoring Air Quality	11,444	11,811	-	-	11,444	11,811
Permit Review	21,047	21,248	-	-	21,047	21,248
Policy Support	2,922	2,509	-	-	2,922	2,509
Special Funds Activities	59,455	62,398	-	-	59,455	62,398
Other Expenses	-	-	165	153	165	153
Total Expenses	162,295	170,070	165	153	162,460	170,223
Increase (Decrease) in Net Assets, June 30, 2005	\$ 38,374	\$ (3,461)	\$ (68)	\$ (62)	\$ 38,306	\$ (3,523)

Governmental Activities

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

The Statement of Activities presents information showing how the AQMD's net assets changed during FY 04-05. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

The Statement of Activities distinguishes governmental activities from business type activities. Governmental activities of the AQMD are predominantly supported by fees, grants, state subvention, penalties, and settlements. The penalties and settlements are one-time revenues which are over and above the regular revenues directly related to the programs. The primary governmental activities of the AQMD are: Advance Clean Air Technology, Ensure Compliance with Clean Air Rules, Customer Service, Develop Programs to Achieve Clean Air, Develop Rules to Achieve Clean Air, Monitoring Air Quality, Permit Review, Policy Support, and Special Fund activities.

There was an increase in program revenues in the Restricted Special Revenues Sources. The program revenues in the Restricted Special Revenue Sources category are made up of revenues from several special revenue funds. Following are explanations of the significant revenue variances from FY 03-04 to FY 04-05:

- **Carl Moyer Fund** was established to account for the money received from the California Air Resources Board (CARB) to provide funds, on an incentive basis, for the incremental cost of cleaner-than-required engines and equipment. Revenue in this fund increased by \$5.1 million which was due to new legislation AB 923 and SB 1107. On September 23, 2004, the Governor signed AB 923 (Firebaugh) which resulted in a significant increase in funding for programs that achieve emission reductions from vehicular sources and off-road engines. In addition, CARB has allocated \$12.2 million to the AQMD under SB 1107 for the implementation of the FY 04-05 Carl Moyer Program. In FY 04-05 revenue from AB 923 was \$5.1 million and revenue from SB1107 was \$1.3 million.
- **Clean Fuels Fund** in FY 04-05 revenue in this account decreased by \$2 million due to an increase in transfers to the General Fund for clean fuels-related staff work and projects of which \$1.6 million was attributed to staff work from prior fiscal years that had not been previously reimbursed.
- **BP ARCO Settlement Projects Fund** was established in April 2005 as result of settlement of an enforcement case against BP West Coast Products. During FY 04-05, \$25 million of settlement revenue was recorded in this fund.
- **Rule 1173 Mitigation Fee Fund** was established in FY 03-04 to account for mitigation fees relating to the release of Volatile Organic Compound (VOC) from an atmospheric Pressure Relief Device (PRD) from refineries and chemical plants. During FY 03-04, \$1.4 million in mitigation fees were collected as a result of four release events that occurred at two refineries. In FY 04-05 no fees were collected, thus resulting in a reduction of \$1.4 million in revenue.

- **Air Quality Improvement Fund** in FY 04-05 AB 2766 mobile source revenue increased by \$1 million as a result of an increase in the number of motor vehicles registered. This fund is used to account for 40 percent of the vehicle registration fees received by the AQMD under the provisions of Section 44243 of the California Health and Safety Code. The revenue received in this fund is distributed on a quarterly basis to the participating cities and counties located in the south coast district based upon their prorated share of population. These agencies are to use these revenues to implement programs to reduce air pollution from motor vehicles.
- **Mobile Source Air Pollution Reduction Fund** in FY 04-05 AB 2766 mobile source revenue increased by \$0.75 million as result of an increase in the number of motor vehicles registered. This fund is used to account for 30 percent of the vehicle registration fees received by the AQMD under the provisions of Sections 44243 and 44244 of the California Health and Safety Code. The revenue received is to be used to provide grants to fund projects for the purpose of reducing air pollution from motor vehicles in the south coast basin.

Business-Type Activities

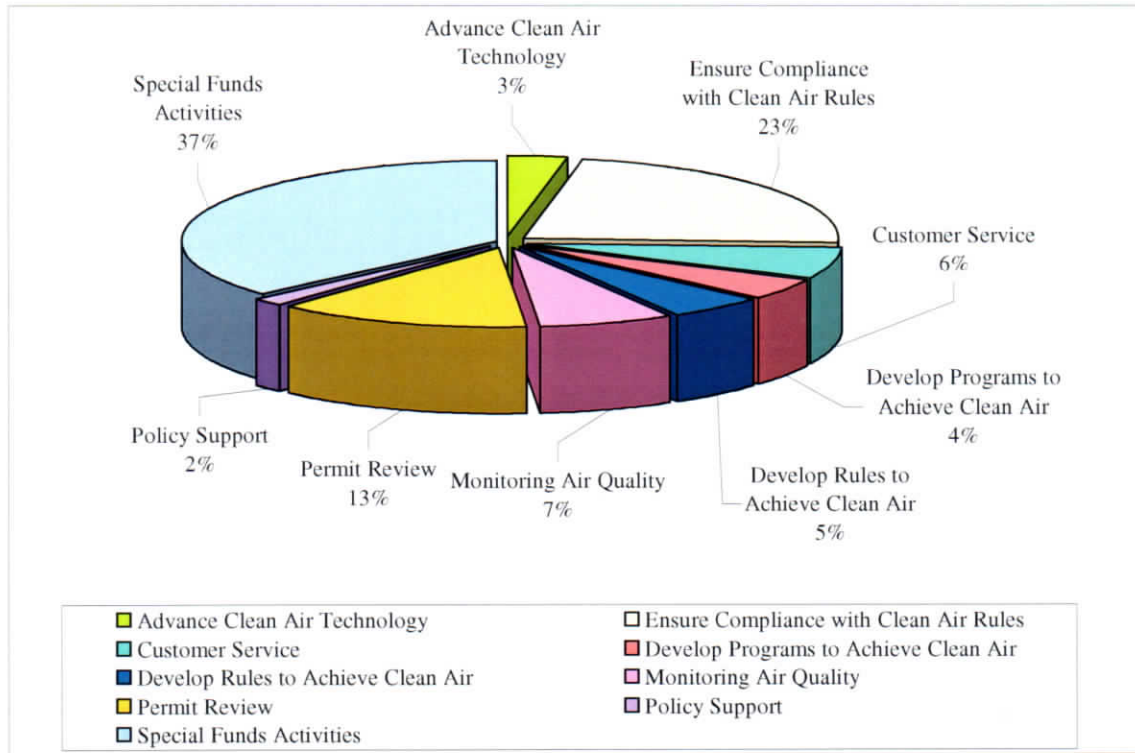
The business-type activities section reports transactions relating to the Clean Air Store and the Compressed Natural Gas (CNG) fueling station. The Clean Air Store and the CNG fueling station expenditures are reported on a cash basis and are offset by sales. The net assets of the business-type activities decreased by \$68,000 from \$550,000 to \$482,000. The decrease is primarily due to depreciation of the business-type activities capital assets.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

EXPENSES BY ACTIVITY

Governmental Activities

FY 2004-05



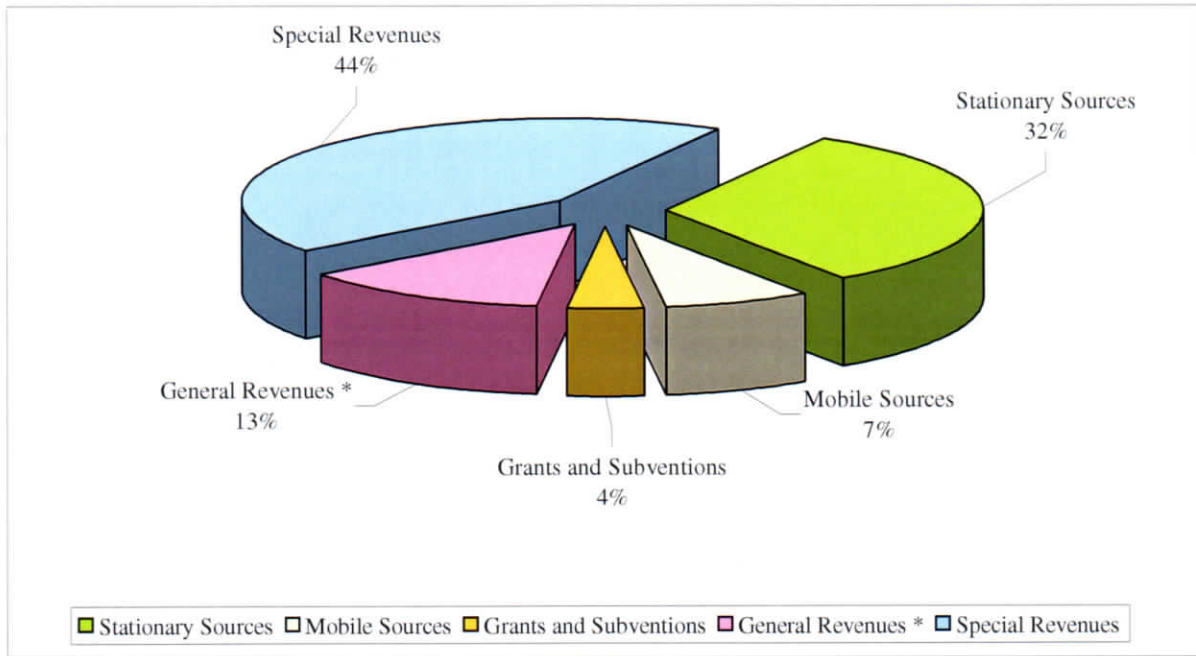
Activity	FY 04-05	FY 03-04	FY 02-03	FY 01-02
Advance Clean Air Technology	\$ 4,944,961	\$ 7,225,970	\$ 5,910,075	\$ 4,484,278
Ensure Compliance with Clean Air Rules	37,105,994	38,270,688	33,217,922	32,780,500
Customer Service	10,368,676	10,887,187	9,971,153	9,491,294
Develop Programs to Achieve Clean Air	6,997,206	7,857,571	6,178,611	5,618,177
Develop Rules to Achieve Clean Air	8,010,485	7,862,276	6,522,360	6,574,206
Monitoring Air Quality	11,443,601	11,810,641	9,973,509	9,827,518
Permit Review	21,047,578	21,247,912	18,809,101	20,572,771
Policy Support	2,921,860	2,509,232	2,547,327	2,226,376
Special Funds Activities	59,454,883	62,398,205	94,117,397	82,812,501
Total	\$ 162,295,244	\$ 170,069,682	\$ 187,247,455	\$ 174,387,621

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

REVENUES BY MAJOR SOURCE

Governmental Activities

FY 2004-05



Source	FY 04-05	FY 03-04	FY 02-03	FY 01-02
Stationary Sources	\$ 64,925,373	\$ 61,932,425	\$ 62,835,710	\$ 65,737,827
Mobile Sources	14,716,865	10,787,342	10,245,290	10,272,434
Grants and Subventions	8,100,573	9,679,283	7,434,924	10,434,312
General Revenues *	25,178,600	23,479,027	16,732,092	16,429,959
Special Revenues	87,747,227	60,731,099	81,194,075	118,891,866
Total	\$ 200,668,638	\$ 166,609,176	\$ 178,442,091	\$ 221,766,398

* General Revenues include Penalties/Settlements, Mobile Sources and Grants and Subvention dollars that are not restricted to specific programs, and Prior-Year Revenue.

The following schedule presents the cost of each AQMD program as well as each program's net cost (total cost less revenues generated by the activities):

GOVERNMENTAL ACTIVITIES

**Net (Expense) Revenue
(In Thousands)**

	<u>FY 2004-2005</u>	
	Total Cost of Program <u>Activities</u>	Net Cost of Program <u>Activities</u>
Advance Clean Air Technology	\$ 4,945	\$ 1,155
Ensure Compliance with Clean Air Rules	37,106	(454)
Customer Service	10,369	(3,600)
Develop Programs to Achieve Clean Air	6,997	(1,683)
Develop Rules to Achieve Clean Air	8,010	(3,200)
Monitoring Air Quality	11,444	(3,102)
Permit Review	21,047	(3,067)
Policy Support	2,922	(1,146)
Special Funds Activities	59,455	28,292
Total	\$ <u>162,295</u>	\$ <u>13,195</u>

In FY 04-05, expenditures in each program activity and overall special fund activities exceeded revenues received.

These program activities are:

- **Advance Clean Air Technology** – Identify technologies from anywhere in the world that may have application in reducing emissions from mobile and stationary sources in the AQMD's jurisdiction.
- **Ensure Compliance with Clean Air Rules** – Perform inspections, source tests, emissions audits and respond to and resolve public complaints to ensure compliance with AQMD rules.
- **Customer Service** – Provide local government, business, and the public with access and input into the regulatory and policy processes of the AQMD. Assist cities and others with AB 2766 projects. Interact with local, State and federal agencies and others to share air quality information, resolve jurisdictional questions and implement joint programs. Implement comprehensive public information, legislative and customer service programs.

- **Develop Programs to Achieve Clean Air** – Develop a regional Air Quality Management Plan (AQMP) to achieve federal and state ambient air quality standards and to meet all other requirements of the federal and California Clean Air Acts.
- **Develop Rules to Achieve Clean Air** – Develop emission reduction regulations for sulfur dioxide, nitrogen dioxide, organic gases, particulate matter, toxics, and other pollutants to implement the regional AQMP, Tanner Air Toxics Process (AB 1807), National Emission Standards for Hazardous Air Pollutants (NESHAPS), and Prevention of Significant Deterioration (PSD) requirements.
- **Monitoring Air Quality** – Operate and maintain a network of air quality monitoring sites for ozone, nitrogen oxides, sulfur oxides, particulate matter, carbon monoxide and other pollutants to obtain data regarding public exposure to air contaminants.
- **Permit Review** – Ensure timely processing of permits for new sources based on compliance with New Source Review and other applicable local, state and federal air quality rules and regulations.
- **Policy Support** – Provide support staff to the Governing Board, Board committees, and various ad hoc committees.
- **Special Funds Activities** – Generate funding for long-term projects that reduce emissions in the South Coast Air Basin. Funding for special funds activities are recognized when received and projects carried out may extend over multiple fiscal years.

D. Financial Analysis of the AQMD's Funds

As noted earlier, the AQMD uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of AQMD's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the AQMD's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year, the AQMD's governmental funds reported combined ending fund balances of \$276.9 million, an increase of \$36.7 million in comparison with the prior year. Approximately 82% of these fund balances (\$227.1 million) constitutes the portion pertaining to special revenue funds. Expenditures under these funds are restricted for specific purposes. The long-term contractual commitments related to these special fund programs, such as replacement of diesel-fueled school buses, involve multiple-year spending.

- **The General Fund** is the operating fund of the AQMD. At the end of the fiscal year, the total fund balance of the General Fund was \$49.8 million. The unreserved fund balance

was \$45 million; designations were \$9.6 million or 21.0%. These designated amounts represent the AQMD's intended use of the financial resources in future periods. Its components are presented under Notes to the Basic Financial Statements on page 38. One measure of the General Fund's liquidity is the comparison of both unreserved fund balance and total fund balance to total expenditures. The unreserved fund balance (designated and undesignated combined) represents 43% of total General Fund expenditures, while total fund balance represents 48% of the total General Fund expenditures. In the General Fund, the unreserved fund balance may serve as a useful measure of the AQMD's net resources available for spending at the end of the fiscal year.

To more fully recover the cost of the AQMD programs, fee rates in FY 04-05 were increased by 3% and additional adjustments were made to permit and annual renewal fees, including adjustments to recover RECLAIM and Title V permit amendment costs, Rules 1149 and 1166 notification costs, and asbestos/lead notification and tracking costs. To mitigate a projected budget shortfall, the FY 04-05 adopted budget reflected the unfunding of 44 positions and expenditure cuts of \$1 million in the service and supplies accounts. The adopted budget relied on approximately \$3.2 million from the undesignated fund balance to balance the budget. On a budgetary basis, General Fund revenues exceeded expenditures by \$10.7 million, which can be attributed to a penalty settlement from a lawsuit with a major refinery, increased interest earnings, and additional revenue recorded for prior year clean fuels program expenditures that had not been previously reimbursed.

Fund balance changes in other major governmental funds are noted below:

- **Air Quality Improvement Fund** – The fund balance increased slightly by \$332,000 compared with prior year. The revenue received represents 40% of the motor vehicle registration fees which are distributed to cities and counties within the South Coast Air Basin.
- **Mobile Sources Air Pollution Reduction Fund** – The fund balance showed an increase compared with the prior year due to increased revenue in fiscal year 04-05. Revenues exceeded expenditures because many of the contracts executed in this special revenue fund are multi-year and the projects are often long-term and expenditures can vary significantly from year to year.
- **Clean Fuels Program Fund** – The fund balance showed an increase compared with the prior year due to revenues exceeding expenditures in FY 04-05. Many of the contracts executed in this special revenue fund are multi-year and the projects are often long-term and expenditures can vary significantly from year to year.
- **Carl Moyer Program Fund** – The fund balance increased due to increased revenues received in fiscal year 04-05. The revenue increased can be attributed to new legislation AB 923 and SB 1107, which brought in an additional \$5.1 million at the end of the fiscal year. In addition, most projects in this fund are long-term in nature, which cover multiple fiscal years. As a result, the expenditures can vary significantly from year to year.

- **BP ARCO Settlement Fund** – This is a new special revenue fund that was established in April 2005 as result of a settlement of an enforcement case against BP West Coast Products. This fund will be used to support air pollution control projects or health studies related to air pollution. Since this fund was established late in FY 04-05 there were no expenditures.

Proprietary Funds

As noted earlier, the AQMD's proprietary funds provide the same type of information found in the government wide financial statements but more detail is included such as a statement of cash flows

E. General Fund Budgetary Highlights

The FY 04-05 adopted budget compared to the amended budget reflects an increase in appropriations of \$7.2 million. The changes to the budget were the result of Governing Board actions that allocated additional funding after the budget was adopted. Also, changes can be attributed to Governing Board approved transfers from other funds and the use of a portion of Undesignated Fund Balance for program needs that were unknown at the time the budget was developed.

Additional funding was received and appropriated in FY 04-05 from the following agencies:

- EPA - \$1.7 million for the following programs: Photochemical Assessment Monitoring Stations (PAMS), Special Particulate Air Monitoring, Lubricant and Rust Inhibitor Study, and the Boiler Tune-Up Project.
- Other California Air Pollution Control Agencies - \$22,000 for the upgrade of the URBEMIS model which is used by public agencies throughout California as a way to calculate air quality impacts for projects that must undergo a California Environmental Quality Act (CEQA) environmental analysis.
- Department of Defense - \$900,000 for the adaptation of urban air monitoring instruments to demonstrate feasibility to measure low level pollutant concentrations.

The following were transferred from other funds and designations to the General Fund:

- Clean Fuels Fund - \$1.6 million was allocated for various Clean Fuels Program activities such as the purchase of hybrid vehicles for the AQMD Clean Air Choice Advanced Technology Demonstration Program and to demonstrate the Plug-in Hybrid Electric Conversion System, to conduct the Multiple Air Toxics Exposure Study (MATES III), to conduct analysis of naphthalene and other polycyclic aromatic hydrocarbons, administrative support, technical assistance, expert consultations, public outreach, technical conference sponsorship, and Technology Advancement website upgrades.

- Air Toxics "Hot Spots" Fund - \$125,000 was transferred for continuation of privatization of portions of the Annual Emissions Reporting (AER) Program.
- Designation for Litigation and Enforcement - \$1 million was allocated for outside counsel to represent and advise both AQMD and AQMD Hearing Board on legal matters related to environmental law.

The remaining \$1.9 million increase can be attributed to transfers from the Undesignated Fund Balance for outside counsel to represent and advise both AQMD and AQMD Hearing Board on legal matters related to environmental law, outside counsel for compliance litigation, employee relations litigation and negotiation services, and to restore positions that had been unfunded.

For FY 04-05, actual revenues exceeded the final budget by \$9.3 million or 8.9% and expenditures savings were \$7.4 million or 6.8%.

The main reason that actual revenue exceeded the final revenue budget was the AQMD received a penalty settlement for unreported emissions from a refinery in the amount of \$6M. Other factors included: AB 2766 mobile source revenue came in above budgeted levels due to an increase in vehicle registrations; revenue from grants/awards received during the fiscal year were not realized due to various projects being deferred; increased prior year revenue of \$2M was realized due to the reimbursement of prior fiscal year expenditures, and interest earnings were budgeted at a rate of return of 1.4% but actually yielded a return of 2.9%.

The expenditure savings can be attributed to the continued economic constraints facing the AQMD which lead to voluntary expenditure reductions. Only critical vacant positions were filled, and fewer contracts were let, resulting in reduced public notice and advertising costs. Workers' compensation claims were under budgeted levels, which were based on prior year experience. The rate increases for insurance premiums and utilities were lower than projected. In addition, the amounts budgeted for utilities for the air monitoring stations were not incurred because they were included in the rental fees. The savings in the capital outlay account were due to expenditures coming in lower than estimated and the purchases of some items were deferred.

F. Capital Assets and Debt Administration

Capital Assets

The AQMD's investment in capital assets is mostly for its governmental activities. The book value was \$55 million (net of accumulated depreciation of \$48.6 million) as of June 30, 2005. This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, computers, office furniture, and AQMD fleet vehicles.

The decrease in capital assets primarily reflects a reduction in spending during the fiscal year and the retirement of various equipment including a portion of the aging AQMD vehicle fleet.

Additional information on the capital assets can be found in the Notes to Financial Statements on page 44.

Long-Term Debt

At the end of the current fiscal year, the AQMD had a total long-term debt outstanding of \$131.8 million, including the current portion of \$8.2 million. Of this amount, \$48.7 million represents the Installment Sale Revenue Bonds issued by the AQMD Building Corporation (Corporation) and the AQMD is required to make debt service payments. This is in accordance with the Installment Purchase Agreement between the Corporation and the AQMD. The amount of \$70.4 million represents the Pension Obligation Bonds. The 1995 series (outstanding balance of \$23.4 million) and \$47 million issued in June 2004 retired the Unfunded Actuarial Accrued Liability due to San Bernardino County Employees Retirement Association. Other long-term debt includes general claims and workers' compensation claims payable of \$1.3 million and compensated absences of \$11.3 million.

Additional information on the AQMD's long-term debt can be found in Note VI to the basic financial statements on pages 45-48 of this report.

G. Economic Factors and Next Year's Budget and Rates

The FY 05-06 expenditure budget, which excludes labor negotiation adjustments for staff, decreases by 1.3% compared to the FY 04-05 amended budget. The decrease relates to the unfunding of vacant positions and expenditure reductions tied to one-time projects or litigation expenses.

In recent years, AQMD's revenues have not kept pace with program costs. Increases in retirement rates as the result of market losses to the retirement system and court decisions which have increased benefits to employees and retirees have increased expenditures. Emission fees revenues have been decreasing reflecting lower emissions as a result of additional emission controls placed on the Basin's emitters. Therefore, to mitigate the substantial increase in retirement rates and the reduced emissions fees revenues, a 6% fee increase was adopted for FY 05-06 and further reductions in expenditures for services and supplies were made along with an appropriation from the undesignated fund balance.

Moreover, since FY 1991-92, the AQMD has reduced staffing and program costs despite increased program requirements. The FY 05-06 expenditure budget is \$108.2 million and includes funding for 768 authorized positions. Compared to FY 1991-92, this reflects 34% less staffing and a 4.2% reduction in budgeted expenditures. Adjusting today's dollar for inflation, the FY 05-06 budget is 38.4% less than the FY 1991-92 adopted budget. Despite these reductions and the success of several streamlining measures adopted by the Board, estimated revenues do not keep pace with AQMD's increasing retirement costs and program requirements.

While the budget for FY 05-06 represents a decrease from the FY 04-05 amended budget, it represents an approximate 5.7% increase over last year's originally adopted budget due to the impact of pension obligation bonds issued late in FY 2003-04. Estimated revenues for FY

05-06 are \$104.3 million, which with the addition of approximately \$4 million from the undesignated fund balance brings funding in balance with expenditures. As in past years, the AQMD will continue its efforts to make progress toward attaining the federal and state clean air mandates in the most cost-effective manner possible.

H. Requests for Information

This financial report is designed to provide a general overview of the AQMD'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 Office of the Chief Financial Officer, South Coast Air Quality Management District, 21865 Copley Drive, Diamond Bar, CA 91765-4182.

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BASIC FINANCIAL STATEMENTS

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

Assets	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	SCAQMD Building Corporation
Current assets:				
Cash and cash equivalents	\$ 273,010,094	\$ 84,943	\$ 273,095,037	\$ 993,256
Investments	9,000,000	-	9,000,000	-
Interest receivable	1,659,344	-	1,659,344	659,925
Due from other governmental agencies	20,295,510	-	20,295,510	-
Accounts receivable, net	977,965	-	977,965	-
Inventories	52,600	3,653	56,253	-
Other assets	-	-	-	442,433
Total current assets	304,995,513	88,596	305,084,109	2,095,614
Noncurrent assets:				
Prepaid pension asset	46,630,180	-	46,630,180	-
Capital assets:				
Land	8,829,792	-	8,829,792	-
Depreciable building and improvements and equipment, net	45,954,107	400,375	46,354,482	-
Total capital assets	54,783,899	400,375	55,184,274	-
Total noncurrent assets	101,414,079	400,375	101,814,454	-
Total assets and other debits	406,409,592	488,971	406,898,563	2,095,614
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	12,620,180	7,436	12,627,616	17,671
Interest payable	659,925	-	659,925	659,925
Salaries and benefits payable	2,996,279	-	2,996,279	-
Unearned revenue	12,488,254	-	12,488,254	-
Long term debt - due within one year	8,238,587	-	8,238,587	-
Total current liabilities	37,003,225	7,436	37,010,661	677,596
Noncurrent liabilities:				
Long term debt - due in more than one year	123,576,916	-	123,576,916	-
Total noncurrent liabilities	123,576,916	-	123,576,916	-
Total liabilities	160,580,141	7,436	160,587,577	677,596
Net assets				
Invested in capital assets, net of related debt	6,048,899	400,375	6,449,274	-
Restricted for special projects/programs	227,089,120	-	227,089,120	-
Unrestricted	12,691,432	81,160	12,772,592	1,418,018
Total net assets	\$ 245,829,451	\$ 481,535	\$ 246,310,986	\$ 1,418,018

See accompanying notes to the basic financial statements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs Primary government:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets							
	Fees and Charges				Restricted Special Revenues Sources *	Operating Grants and Subventions	Mobile Sources	Stationary Sources	Governmental Activities	Business- Type Activities	Total	SCAQMD Building Corporation
	Expenses	Stationary Sources	Mobile Sources	Operating Grants and Subventions								
Governmental activities:												
Advance clean air technology	\$ 4,944,961	\$ 311,739	\$ 5,625,772	\$ 162,832	\$ -	\$ -	\$ 1,155,382	\$ -	\$ -	\$ -	\$ 1,155,382	\$ -
Ensure compliance with clean air rules	37,105,994	31,482,470	1,704,427	3,464,430	-	-	(454,667)	-	-	-	(454,667)	-
Customer service	10,368,676	4,304,784	2,152,630	311,212	-	-	(3,600,050)	-	-	-	(3,600,050)	-
Develop programs to achieve clean air	6,997,206	2,012,199	3,043,022	259,202	-	-	(1,682,783)	-	-	-	(1,682,783)	-
Develop rules to achieve clean air	8,010,485	3,826,248	837,983	146,397	-	-	(3,199,857)	-	-	-	(3,199,857)	-
Monitoring air quality	11,443,601	3,709,166	947,670	3,684,824	-	-	(3,101,941)	-	-	-	(3,101,941)	-
Permit review	21,047,578	17,908,342	-	71,676	-	-	(3,067,560)	-	-	-	(3,067,560)	-
Policy support	2,921,860	1,370,425	405,361	-	-	-	(1,146,074)	-	-	-	(1,146,074)	-
Special funds activities	59,454,883	-	-	-	-	-	87,747,227	-	-	-	87,747,227	-
Total governmental activities	162,295,244	64,925,373	14,716,865	8,100,573	-	-	13,194,794	-	-	-	28,292,344	-
Business-type activities:												
Clean air store	662	-	-	-	-	-	-	-	-	(662)	(662)	-
CNG fueling station	165,135	-	-	-	-	-	-	-	-	(165,135)	(165,135)	-
Total business-type activities	165,797	-	-	-	-	-	-	-	-	(165,797)	(165,797)	-
Total primary government	\$ 162,461,041	\$ 64,925,373	\$ 14,716,865	\$ 8,100,573	\$ 87,747,227	\$ -	\$ 13,194,794	\$ -	\$ -	\$ -	\$ 13,028,997	\$ -
Component unit:												
SCAQMD Building Corporation	\$ 1,677,337	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,677,337)
Total component unit	\$ 1,677,337	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,677,337)
General revenues:												
Grants and subventions - restricted to non-specific stationary source programs							2,964,713				2,964,713	
Mobile sources - restricted to non-specific mobile source programs							6,282,933				6,282,933	
Interest							1,273,901				1,273,901	
Lease revenue							338,961				338,961	14,771
Penalties/ settlement							11,295,895				11,295,895	
Subscriptions-							29,512				29,512	
Other							2,992,685				2,992,685	1,636,967
Clean Air Store/CNG Fuel Sales							-			97,424	97,424	-
Total general revenues							25,178,600			97,424	25,276,024	1,651,738
Change in net assets							38,373,394			(68,373)	38,305,021	(25,599)
Net assets - July 1, 2004							207,456,057			549,908	208,005,965	1,443,617
Net assets - June 30, 2005							\$ 245,829,451			\$ 481,535	\$ 246,310,986	\$ 1,418,018

* Restricted Special Revenue Sources consist of pass-through and/or one-time funding sources that are restricted for specific programs such as Carl Moyer Program Fund, Clean Fuels Program Fund, Mobile Source Air Pollution Reduction Fund and the Air Quality Investment Fund.

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2005**

Assets	Air Quality Improvement Fund		Mobile Sources Air Pollution Reduction Fund		Clean Fuels Program Fund		Carl Moyer Program Fund		BP ARCO Settlement Projects Fund		Other Governmental Funds		Total
	General	Fund	Reduction Fund	Fund	Program Fund	Fund	Program Fund	Fund	Projects Fund	Funds	Funds		
Cash and cash equivalents	\$ 56,333,350	\$ 2,120,226	\$ 40,543,493	\$ 45,939,672	\$ 36,892,052	\$ 25,000,000	\$ 66,181,301	\$ 273,010,094					
Investments	3,000,000	-	3,000,000	3,000,000	-	-	-	9,000,000					
Interest receivable	415,064	13,303	269,334	310,057	199,816	50,905	400,865	1,659,344					
Due from other governmental agencies	7,515,692	3,185,397	2,389,047	2,109,463	4,393,947	-	701,964	20,295,510					
Due from other funds	3,995,025	-	-	62,550	-	-	4,955	4,062,530					
Accounts receivable, net	-	-	-	187,520	-	-	1,149,837	1,337,357					
Inventories	52,600	-	-	-	-	-	-	52,600					
Total assets and other debits	\$ 71,311,731	\$ 5,318,926	\$ 46,201,874	\$ 51,609,262	\$ 41,485,815	\$ 25,050,905	\$ 68,438,922	\$ 309,417,435					

Liabilities and fund balances

Liabilities:	General	Air Quality Improvement Fund	Mobile Sources Air Pollution Reduction Fund	Clean Fuels Program Fund	Carl Moyer Program Fund	BP ARCO Settlement Projects Fund	Other Governmental Funds	Total
Accounts payable and accrued liabilities	\$ 6,201,348	\$ -	\$ 1,252,262	\$ 721,562	\$ 894,957	\$ -	\$ 4,152,778	\$ 13,222,907
Salaries and benefits payable	2,996,279	-	-	-	-	-	-	2,996,279
Due to other funds	68,013	-	-	3,608,496	73,615	-	312,914	4,063,038
Unearned revenue	12,244,410	-	-	-	-	-	-	12,244,410
Total liabilities	21,510,050	-	1,252,262	4,330,058	968,572	-	4,465,692	32,526,634

Fund balances:

Reserved for encumbrances	4,725,903	14,718	14,950,742	15,053,709	17,844,468	-	30,706,991	83,296,531
Reserved for inventories	52,600	-	-	-	-	-	-	52,600
Unreserved:								
General fund	45,023,178	-	-	-	-	-	-	45,023,178
Special revenue funds	-	5,304,208	29,998,870	32,225,495	22,672,775	25,050,905	33,266,239	148,518,492
Total fund balances	49,801,681	5,318,926	44,949,612	47,279,204	40,517,243	25,050,905	63,973,230	276,890,801
Total liabilities and fund balances	\$ 71,311,731	\$ 5,318,926	\$ 46,201,874	\$ 51,609,262	\$ 41,485,815	\$ 25,050,905	\$ 68,438,922	\$ 309,417,435

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2005**

Fund Balances – Total Governmental Funds	\$276,890,801
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Pension assets and related AQMD costs resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not reported in the governmental funds.	46,630,180
Capital assets net of accumulated depreciation have not been included as financial resources in the governmental funds. These capital assets are reported in the Statement of Net Assets as capital assets of AQMD as a whole.	54,783,898
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(659,925)
Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets.	
Long term debt	(119,161,896)
General and auto liability	(44,168)
Workers' compensation	(1,303,743)
Compensated absences	<u>(11,305,696)</u>
Net Assets of Governmental Activities	<u>\$245,829,451</u>

See accompanying notes to the basic financial statements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

Revenues:	General Fund	Air Quality Improvement Fund	Mobile Sources Air Pollution Reduction Fund	Clean Fuels Program Fund	Carl Moyer Program Fund	BP ARCO Settlement Projects Fund	Other Governmental Funds	Total
Emission fees	\$ 19,434,549	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,434,549
Annual operating fees	28,876,817	-	-	-	-	-	-	28,876,817
Permit fees	14,114,680	-	-	-	-	-	-	14,114,680
Clean fuels/mobile/stationary sources	20,441,982	19,454,961	14,591,221	6,740,437	3,968,527	-	-	65,197,128
Air toxics	1,614,851	-	-	-	-	-	-	1,614,851
Transportation	869,554	-	-	-	-	-	-	869,554
State subvention	4,024,268	-	-	-	-	-	-	4,024,268
Federal grant	6,953,187	-	-	-	-	-	35,000	6,988,187
State grant	87,831	-	-	-	9,128,908	-	2,037,250	11,253,989
Interest	1,273,901	39,643	897,202	1,031,539	675,241	50,905	1,476,527	5,444,958
Lease revenue	338,961	-	-	-	-	-	-	338,961
Source test/analysis fees	321,526	-	-	-	-	-	-	321,526
Hearing Board	251,212	-	-	-	-	-	-	251,212
Penalties/settlements	11,295,895	-	-	-	-	25,000,000	-	36,295,895
Subscriptions	29,512	-	-	-	-	-	-	29,512
Reclaim & executive order mitigation	-	-	-	-	-	-	772,526	772,526
Other revenues	2,992,685	-	-	-	316,410	-	3,636,621	6,945,716
Total revenues	<u>112,921,411</u>	<u>19,494,604</u>	<u>15,488,423</u>	<u>7,771,976</u>	<u>14,089,086</u>	<u>25,050,905</u>	<u>7,957,924</u>	<u>202,774,329</u>
Expenditures:								
Current:								
Salaries and employee benefits	73,791,627	-	-	-	-	-	-	73,791,627
Insurance	1,044,518	-	-	-	-	-	-	1,044,518
Rent	783,674	-	-	-	-	-	-	783,674
Supplies	2,235,088	-	-	-	-	-	-	2,235,088
Contract and special services	10,875,531	19,162,679	11,018,508	7,072,048	5,484,339	-	18,377,742	71,990,847
Maintenance	995,624	-	-	-	-	-	-	995,624
Travel and auto	433,606	-	-	-	-	-	-	433,606
Utilities	1,414,156	-	-	-	-	-	-	1,414,156
Communications	491,337	-	-	-	-	-	-	491,337
Uncollectible accounts	159,290	-	-	-	-	-	51,581	210,871
Other expenditures	758,474	-	303,942	(68,195)	-	-	89,835	1,084,056
Capital outlay	942,278	-	-	-	-	-	68,095	1,010,373
Debt service:								
Principal	6,350,000	-	-	-	-	-	-	6,350,000
Interest	4,286,541	-	-	-	-	-	-	4,286,541
Total expenditures	<u>104,561,744</u>	<u>19,162,679</u>	<u>11,322,450</u>	<u>7,003,853</u>	<u>5,484,339</u>	<u>-</u>	<u>18,587,253</u>	<u>166,122,318</u>
Excess (deficiency) of revenues over (under) Expenditures before transfers	<u>8,359,667</u>	<u>331,925</u>	<u>4,165,973</u>	<u>768,123</u>	<u>8,604,747</u>	<u>25,050,905</u>	<u>(10,629,329)</u>	<u>36,652,011</u>
Other financing sources (uses):								
Transfers in	-	-	-	200,000	-	-	91,950	291,950
Transfers out	-	-	-	(91,950)	-	-	(200,000)	(291,950)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,050</u>	<u>-</u>	<u>-</u>	<u>(108,050)</u>	<u>-</u>
Net change in fund balances	<u>8,359,667</u>	<u>331,925</u>	<u>4,165,973</u>	<u>876,173</u>	<u>8,604,747</u>	<u>25,050,905</u>	<u>(10,737,379)</u>	<u>36,652,011</u>
Fund balances, July 1, 2004	41,442,014	4,987,001	40,783,639	46,403,031	31,912,496	-	74,710,609	240,238,790
Fund balances, June 30, 2005	<u>\$ 49,801,681</u>	<u>\$ 5,318,926</u>	<u>\$ 44,949,612</u>	<u>\$ 47,279,204</u>	<u>\$ 40,517,243</u>	<u>\$ 25,050,905</u>	<u>\$ 63,973,230</u>	<u>\$ 276,890,801</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds \$36,652,011

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

Governmental funds report capital outlays as expenditures. However, in the Government-wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital outlays recorded in the current period.	1,010,373
Depreciation expense on capital assets is reported in the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	(4,694,268)
Amortization of prepaid pension asset is reported in the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, amortized amount is not reported in governmental funds.	255,180
Repayment of bond principal is an expenditure in the governmental funds. For AQMD as a whole, principal payments reduce the liabilities in the Government-wide Statement of Net Assets and do not result in an expense in the Statement of Activities and Changes in Net Assets.	6,350,000
Accrued interest expense on long-term debt is reported in the Government-wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, interest expense is not reported as an expenditure in governmental funds.	(659,925)
Long-term compensated absences and general liability/workers' compensation claims are reported in the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, they are not reported as expenditures in governmental funds:	
Compensated absences	(194,278)
General and auto liability/workers' compensation claims	<u>(345,699)</u>
Change in Net Assets of Governmental Activities	<u>\$38,373,394</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005**

	Business-type Activities - Enterprise Funds		
	Clean Air Store Fund	CNG Fueling Station Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 12,956	\$ 71,987	\$ 84,943
Inventories	3,653	-	3,653
Total current assets	<u>16,609</u>	<u>71,987</u>	<u>88,596</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	-	400,375	400,375
Total noncurrent assets	<u>-</u>	<u>400,375</u>	<u>400,375</u>
Total assets	<u>16,609</u>	<u>472,362</u>	<u>488,971</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	103	7,333	7,436
Total liabilities	<u>103</u>	<u>7,333</u>	<u>7,436</u>
<u>Net assets</u>			
Invested in capital assets	-	400,375	400,375
Unrestricted	16,506	64,654	81,160
Total net assets	<u>\$ 16,506</u>	<u>\$ 465,029</u>	<u>\$ 481,535</u>

See accompanying notes to the basic financial statements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds		
	Clean Air Store	CNG Fueling	Total
	Fund	Station Fund	
Revenue:			
Merchandise sales	\$ 445	\$ 96,979	\$ 97,424
Total operating revenue	<u>445</u>	<u>96,979</u>	<u>97,424</u>
Expenses:			
Depreciation	-	87,171	87,171
Other expenses	662	77,964	78,626
Total operating expenses	<u>662</u>	<u>165,135</u>	<u>165,797</u>
Operating income (loss)	(217)	(68,156)	(68,373)
Total net assets, July 1, 2004	<u>16,723</u>	<u>533,185</u>	<u>549,908</u>
Total net assets, June 30, 2005	<u>\$ 16,506</u>	<u>\$ 465,029</u>	<u>\$ 481,535</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2005**

	Business-type Activities - Enterprise Funds		
	Clean Air Store Fund	CNG Fueling Station Fund	Total
<u>Cash flows from operating activities:</u>			
Cash received from merchandise sales	\$ 480	\$ 104,302	\$ 104,782
Cash payment for goods and services	(925)	(86,445)	(87,370)
Net cash provided by operating activities	(445)	17,857	17,412
Beginning cash balance, July 1, 2004	13,401	54,130	67,531
Ending cash balance, June 30, 2005	\$ 12,956	\$ 71,987	\$ 84,943
 <u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u>			
Operating income (loss)	\$ (217)	\$ (68,156)	\$ (68,373)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	-	87,171	87,171
(Increase) in inventory	(235)	-	(235)
Increase (decrease) in accounts payable and accrued liabilities	7	(1,158)	(1,151)
Total adjustments	(228)	86,013	85,785
Net cash provided by operating activities	\$ (445)	\$ 17,857	\$ 17,412

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
June 30, 2005**

<u>Assets</u>	<u>Agency Funds</u>	<u>Retirement Benefit Trust Fund</u>
Cash and cash equivalents	\$ 559,547	\$ 1,604,101
Interest receivable	3,493	10,936
Due from other funds	<u>-</u>	<u>508</u>
Total assets	<u>\$ 563,040</u>	<u>\$ 1,615,545</u>
<u>Liabilities</u>		
Liabilities:		
Accounts payable & accrued liabilities	\$ <u>563,040</u>	\$ <u>-</u>
Total liabilities	<u>\$ 563,040</u>	<u>\$ -</u>
<u>Net Assets</u>		
Net assets held in trust for retirement benefit		<u>1,615,545</u>
Total net assets		<u>\$ 1,615,545</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
For the Year Ended June 30, 2005**

	<u>Retirement Benefit Trust Fund</u>
<u>Additions:</u>	
Employer Contributions	\$ 2,062
Interest	34,837
Total additions	<u>36,899</u>
 <u>Deductions:</u>	
Other expenditures	<u>-</u>
Total deductions	<u>-</u>
Change in net assets	<u>36,899</u>
Net assets held in trust for retirement benefits, July 1, 2004	<u>1,578,646</u>
Net assets held in trust for retirement benefits, June 30, 2005	<u>\$ 1,615,545</u>

See accompanying notes to the basic financial statements.

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SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

The South Coast Air Quality Management District (AQMD) was established pursuant to the Lewis Air Quality Management Act on February 1, 1977, commencing at Section 40400 of the Health and Safety Code of the State of California. The AQMD encompasses all of Orange County and parts of Los Angeles, San Bernardino, and Riverside Counties. The AQMD 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 AQMD's permit system.

The accompanying financial statements present the financial activity of the AQMD (primary government) and its discretely presented component unit, South Coast Air Quality Management District Building Corporation (Corporation), an entity for which the AQMD is considered to be financially accountable. Since it is legally separate from the AQMD, the Corporation is reported in a separate column within the government-wide financial statements.

The Corporation was incorporated as a nonprofit corporation under the laws of the State of California on September 21, 1978. The purpose of the Corporation is to finance the acquisition and improvement of a building complex/headquarters of the AQMD. Although the Corporation is a legally separate entity, the AQMD Governing Board approves the appointment of the Corporation's Board of Directors. The AQMD has had significant transactions with the Corporation for the construction and improvement of the AQMD's headquarters facility. Hence, there is a financial benefit/burden relationship between the AQMD and the Corporation.

Separate financial statements for the Corporation may be obtained from the AQMD Finance Office located at 21865 Copley Drive, Diamond Bar, California 91765.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the AQMD are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The AQMD applies all applicable Governmental Accounting Standards Board (GASB) pronouncements (including all National Council on Governmental Accounting (NCGA) statements and interpretations currently in effect). Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that these standards do not conflict with or contradict the guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The AQMD has elected not to follow subsequent private-sector guidance.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

The basic financial statements of the AQMD are composed of the following:

- Government-wide financial statements
- Governmental fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

The AQMD government-wide financial statements include a Statement of Net Assets and Statement of Activities. These statements present summaries of governmental and business-type activities for the AQMD as a whole, excluding fiduciary activities. The primary government and component unit are presented separately within the financial statements with the focus on the primary government.

Certain eliminations have been made as prescribed by GASB Statement 34 in regards to interfund activities, payables and receivables. There are no internal service fund transactions; as a result, no eliminations were made for internal balances.

These statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the AQMD'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 and expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements rather than reporting them as expenditures. Proceeds of long-term debt are also recorded in the government-wide financial statements as a liability, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

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

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 from motor vehicle registrations; 2) operating grants and subventions that are in support of air pollution program activities; and 3) restricted special revenue sources. Program expenditures are subtracted from program revenues to present the net cost of each functional activity. Interest income and other miscellaneous items not properly included among program revenues are reported as general revenues.

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

- Advance Clean Air Technology
- Ensure Compliance With Clean Air Rules
- Customer Service
- Develop Programs To Achieve Clean Air
- Develop Rules To Achieve Clean Air
- Monitoring Air Quality
- Permit Review
- Policy Support, and
- Special Funds Activities

When both restricted and unrestricted resources are available for use, it is AQMD's policy to use restricted resources first within the restricted activities, then use the unrestricted resources as they are needed.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. A fund is considered major if it is the primary operation fund or meets both of the first two criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.
- c. The government has determined that a fund is important to the financial statement user.

The AQMD has presented all major funds that met those qualifications. These major funds are the Air Quality Improvement Fund, Mobile Sources Air Pollution Reduction Fund, Clean Fuels Program Fund, Carl Moyer Program Fund, and BP Arco Settlement Projects Fund in addition to the General Fund.

A 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 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

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financial resources measurement focus means that only current assets and current liabilities are generally included in the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. 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. For this purpose, the AQMD considers revenues to be available if they are collected within 60 days after year-end to be available to finance the expenditures accrued for the reporting period. The primary revenue sources which have been treated as susceptible to accrual by the AQMD are as follows: emissions flat fees, permit fees, air toxics "hot spots" fees, and source test/analysis fees from stationary sources; clean fuels revenues from stationary sources; federal and state grants under grants and subventions and interest under general revenues. All other revenue items are considered measurable and available only when cash is received by the AQMD. Expenditures are recognized in the accounting period in which the related fund liability is incurred, if measurable, except for debt service expenditures, as well as expenditures related to compensated absences, which are recognized when payment is due.

Amounts expended to acquire capital assets are recorded as capital outlay expenditures in the year that resources were expended rather than recording them as fund assets. The proceeds of long-term debt are recorded as other financing sources rather than as fund liability. Amounts paid to reduce long-term indebtedness are reported as debt service expenditures.

Proprietary Fund Statements

Proprietary Fund financial statements include a Statement of Fund Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows. These funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (revenues) and decreases (expenses) in total net assets. The revenues are recognized in the period in which they are earned and expenses are recognized in the period in which the liability is incurred regardless of the timing of related cash flows.

Fiduciary Fund Statements

Fiduciary Fund financial statements include a Statement of Fiduciary Net Assets. These funds represent Agency Funds which are custodial in nature (assets equal liabilities) and do not involve the recording of revenues and expenses or the measurement of results of operations. The accrual basis of accounting is used for Agency Funds.

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C. Fund Types and Major Funds

As noted earlier, the funds designated as major funds are determined in accordance with GASB Statement 34.

The AQMD reports the following major governmental funds:

General Fund – This is the primary operating fund of the AQMD and is used to record transactions relating to its general business operations. It is also used to account for all revenues and expenditures that are not required to be accounted for in another fund.

Special Revenue Funds – These funds are used to record transactions applicable to specific revenue sources that are legally restricted to expenditures for specific purposes. The following are the AQMD's major special revenue funds:

- Air Quality Improvement Fund - Used to account for 40% of the revenue received by the AQMD from motor vehicle registration fees under the provisions of Sections 44243 and 44244 of the California Health and Safety Code. This money is distributed on a quarterly basis to cities and counties within the South Coast Air Basin to implement programs to reduce air pollution from motor vehicles.
- Mobile Sources Air Pollution Reduction Fund - Used to account for 30% of the revenue received by the AQMD from the motor vehicle registration fees under the provisions of Sections 44243 and 44244 of the California Health and Safety Code. This money is used to provide grants to fund projects for the purpose of reducing air pollution from motor vehicles within the South Coast Air Basin. Total projects to date amount to over \$200 million and over 6,800 tons of emissions reduced. This special fund was established in FY 1991-92. The emission reduction statistics were refined by Science and Technology Advancement staff during FY 2004-05.
- Clean Fuels Program Fund – Established as a special revenue fund in fiscal year 2000 to account for contract activities and revenues of the Clean Fuels Program. These are activities associated with implementing clean fuels stationary and mobile sources development and demonstration projects approved by the Governing Board. Since 1988, the Clean Fuel program has provided funds for 775 projects totaling \$117.9 million.
- Carl Moyer Program Fund - Established in fiscal year 2000 to account for activities related to the administering of state funds set aside for the replacement of diesel-powered vehicles with cleaner-technology vehicles. It has funded over 2,400 vehicles and 33 infrastructure/charging stations, totaling \$68 million. It provides incentive funds for the replacement of diesel-fueled on- and off-road vehicles such as refuse haulers, heavy duty trucks, transit and school buses, construction equipment, and marine vessels. The number of vehicles funded was refined by Science and Technology Advancement staff during FY 2004-05.

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- BP Arco Settlement Projects Fund – Established in fiscal year 2005 to account for the \$25 million civil penalties as part of the settlement with BP Arco for air pollution violations.

Details of various non-major governmental funds are presented under the section “Other Supplementary Information.”

The AQMD reports the following major proprietary funds:

- Clean Air Store Fund – Used to account for the operation of the Clean Air Store which sells merchandise with a pro-environmental message.
- Compressed Natural Gas (CNG) Fueling Station Fund – Established during fiscal year 2002 to administer all activities, transactions, and funding relating to the public and the AQMD use of CNG fueling facilities at the AQMD’s headquarters. The fueling station will help accommodate the growing number of alternative-fuel vehicle fleets.

The AQMD also reports the following fund types:

- Agency Funds - Used to account for funds received and held by the AQMD as an agent and then disbursed to other governmental agencies, businesses or persons. The following are the AQMD’s agency funds:
 - SCAQMD Building Corporation Fund - Used to account for funds required to be deposited in a separate fund by the installment purchase agreement between the AQMD and the Corporation. Note VI provides for more information regarding this agreement.
 - General Purpose Fund - Used to account for funds due to others that are not accounted for in the other funds.
- Retirement Benefit Trust Fund - Used to account for funds contributed by the AQMD and interest earned on its principal for the future payment of medical, dental and burial costs of the AQMD employees retiring subsequent to June 30, 1982, who are members of the Los Angeles County Employees Retirement Association. Note VIII contains more information about the AQMD’s retirement plans.

D. Assets, Liabilities and Net Assets or Equity

1. Cash and Cash Equivalents

The AQMD considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

2. Investments

The AQMD’s investments are reported at fair value, except for certain short-term money market investments, which are carried at amortized cost.

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3. 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 \$5,000 and with an expected useful life of three years or more are capitalized.

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 respective balance sheet. Property, plant, and equipment of the AQMD are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	15-30 years
Equipment	5-7 years

4. Inventories

Inventories consist principally of office, computer, cleaning and laboratory supplies. Inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

5. Compensated Absences

Regular full-time employees accumulate vacation time, sick leave, compensatory time, and other leave time. Certain restrictions apply with respect to the accumulation of leave time and its payment at termination. All vacation, sick leave, compensatory time, and other leave time are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirement.

6. Self-Insurance

The AQMD is self-insured for general, automobile, and workers' compensation liabilities (See note VII).

7. Long-term Obligation

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and

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discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Reserves and Designations

Portions of fund balances are reserved for future use and are, therefore, not available for appropriation. Designation of unreserved fund balances in the general fund indicates the AQMD's tentative plans for use of the financial resources in future periods.

The following table shows reserved and unreserved fund balances as of June 30, 2005:

	<u>General Fund</u>	<u>Major Governmental Funds</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Reserved for:				
Encumbrances	\$ 4,725,903	\$ 47,863,637	\$ 30,706,991	\$ 83,296,531
Inventories	52,600	-	-	52,600
Total Reserved Fund Balances	<u>4,778,503</u>	<u>47,863,637</u>	<u>30,706,991</u>	<u>83,349,131</u>
Unreserved, designated for:				
Self-insurance	2,000,000	-	-	2,000,000
Equipment Replacement	1,000,000	-	-	1,000,000
Budget Stabilization	6,000,000	-	-	6,000,000
Unemployment Claims Enhanced	80,000	-	-	80,000
Compliance Activities	291,061	-	-	291,061
Port Compliance/Power Plant Emissions Mitigation	264,027	-	-	264,027
Unreserved, undesignated	<u>35,388,090</u>	<u>115,252,253</u>	<u>33,266,239</u>	<u>183,906,582</u>
Total Unreserved Fund Balances	<u>45,023,178</u>	<u>115,252,253</u>	<u>33,266,239</u>	<u>193,541,670</u>
Total Fund Balances	<u>\$ 49,801,681</u>	<u>\$ 163,115,890</u>	<u>\$ 63,973,230</u>	<u>\$ 276,890,801</u>

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E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

F. Adoption of New GASB Pronouncements

During fiscal year 2005, AQMD adopted the following new GASB pronouncements:

GASB Statement 40, "Deposit and Investment Risk Disclosures"

This statement establishes and modifies disclosure requirements related to investment and deposit risks. Accordingly, the note disclosure on cash and investments has been revised to conform to the provisions of GASB Statement No. 40.

GASB Statement 44, "Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1"

This statement amends portions of NCGA Statement 1, "Government Accounting and Financial Reporting Principles," to improve understandability and usefulness of the information that state and local governments present as supplementary information in the statistical section. AQMD elected to implement GASB 44 beginning fiscal year 2005.

II. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following is a summary of the cash and cash equivalent balances for the primary government (including fiduciary funds) and component unit at June 30, 2005.

	Primary Government	Component Unit
Cash on hand	\$ 866,233	\$ -
Cash in bank	60,000	993,256
Cash equivalents in pooled investments	<u>274,332,452</u>	<u>-</u>
	<u>\$ 275,258,685</u>	<u>\$ 993,256</u>

DEPOSITS

At June 30, 2005, the carrying amount of the AQMD's bank deposits was \$60,000 and the bank balance was \$84,919. The entire amount was covered by federal depository insurance.

At June 30, 2005, the carrying amount and bank balance of the AQMD's component unit bank deposits was \$993,256 of which \$100,000 was covered by federal depository insurance. The remaining \$893,256 in excess of \$100,000 was collateralized as required by state law.

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INVESTMENTS

At June 30, 2005 the carrying amount of AQMD's cash equivalents held in Los Angeles County's Pooled Surplus Investment Fund and State of California Local Agency Investment Fund amounted to \$274,332,452 are stated at fair value. Investments in the amount of \$9,000,000 are reported at amortized cost which approximates market value.

Changes in 1996 to the Government Code require that a statement of investment policy be transmitted annually to the oversight committee and legislative body of a local agency for consideration at a public meeting. Government Code Section 53607 requires that a local agency's legislative body annually renew its delegation of authority to its treasurer to invest or to reinvest funds of the local agency.

For the past 28 years, the County of Los Angeles has provided treasury management services to the AQMD. These services are limited to the processing of payroll and accounts payable warrants and the investment of available cash balances. Annually, the Governing Board reviews the treasury management options available to the AQMD and renews its delegation of authority to its appointed Treasurer to invest or re-invest AQMD funds.

Available cash is invested in investments legally allowable under state law. Income from such investments is allocated on the basis of average monthly cash balances to the respective funds based on the source of funds invested.

In accordance with the State of California Government Code, the AQMD adopts an investment policy annually that, among other things, authorizes types and concentrations of investments and maximum investment terms. Statutes and investment policy authorize the AQMD to invest in:

- Obligations of the U.S Treasury
- Federal agencies and U.S. government sponsored enterprises
- Los Angeles County Pooled Surplus Investment Portfolio
- State of California Local Agency Investment Fund
- State of California and local agency obligations – not allowed as Special Purpose Investments
- Shares of money market mutual funds
- Bankers acceptances
- Negotiable certificates of deposit
- Commercial paper
- Medium term maturity corporate securities
- Mortgage securities or asset-backed securities
- Repurchase agreements – with maximum maturity of 30 days and must be collateralized by the U.S. Treasury or Agencies with a market value of 102%

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- Reverse purchase agreements – are not allowed except as part of investments in the County of Los Angeles Pooled Surplus Investment Portfolio and the State of California Local Agency Investment Fund
- Variable and floating rate securities
- Derivative securities – not allowed as Special Purpose Investments

The following table summarizes AQMD investments at June 30, 2005.

	Fair Value	Investment Maturities		
		<1 Year	1-2 years	2-3 years
Pooled investments:				
Investment in Los Angeles County's				
Pooled Surplus Investment (PSI) Fund	\$ 234,600,065	\$ 234,600,065	\$ -	\$ -
Investment in Local Agency				
Investment Fund	<u>39,732,387</u>	<u>39,732,387</u>	<u>-</u>	<u>-</u>
Total Cash Equivalents	<u>274,332,452</u>	<u>274,332,452</u>	<u>-</u>	<u>-</u>
Investments				
U.S. Government Securities	<u>9,000,000</u>	<u>-</u>	<u>9,000,000</u>	<u>-</u>
Total Investments	<u>9,000,000</u>	<u>-</u>	<u>9,000,000</u>	<u>-</u>
Total Cash Equivalent & Investments	\$ <u>283,332,452</u>	\$ <u>274,332,452</u>	\$ <u>9,000,000</u>	\$ <u>-</u>

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the AQMD investment policy limits its investment portfolio of Pooled Surplus Investments (PSI) with the County of Los Angeles to maturities of less than five years at time of purchase. The maximum maturity of any SPI (Special Purpose Investments) shall be five years. The weighted average maturity of the SPI separate account portfolio may not exceed three years.

Credit Risk

The AQMD mitigates its credit risk generally by following its three primary investment objectives, in order of safety, liquidity, and yield. The AQMD's policy further restricts the investing in only permitted investments; the portfolio is diversified so that no one type of issuer or issue will have a disproportionate impact on the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk, that, in the event of failure of the counterparty to a transaction, a government or an agency will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

As of June 30, 2005, none of the AQMD's deposits or investments were exposed to custodial credit risk.

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State Treasurer's Local Agency Investment Fund

The AQMD is a voluntary participant in the California State Treasurer's Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. At June 30, 2005, the AQMD had \$39,732,387 deposited in LAIF.

LAIF is part of the Pooled Money Investment Account (PMIA) and has oversight provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB Board members are the State Treasurer, Director of Finance and the State Controller. Additionally, LAIF has oversight by the Local Investment Advisory Board, which consists of five members, as designated by statute. The Chairman is the State Treasurer, who appoints the other four members to two-year terms.

The fair value of the AQMD's investment in this pool is reported in the accompanying financial statements at amounts based upon the AQMD's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records of LAIF, which are recorded on an amortized cost basis.

III. DUE FROM OTHER GOVERNMENT AGENCIES AND ACCOUNTS RECEIVABLE

Due from other government agencies at June 30, 2005 consists of the following:

State Air Resources Board	\$ 1,077,675
Department of Defense	
Edgewood Chemical Biological Center	675,000
U.S. Treasury, GSA (Lease)	4,342
CA Natural Gas Vehicle Coalition (Lease)	735
Diamond Bar Chamber of Commerce (Lease)	890
Environmental Protection Agency	4,480,676
Department of Motor Vehicles	<u>14,056,192</u>
Total	<u>\$20,295,510</u>

Accounts receivable consist of the following at June 30, 2005:

Air Toxics "Hot Spots", Emission Fees, Permits, Annuals and Source Testing	\$1,396,686
Clean Fuels/Stationary Sources	195,458
Miscellaneous Receivables	<u>106,068</u>
Subtotal	1,698,212
Less: Allowance for Doubtful Accounts	<u>(360,855)</u>
Total	<u>\$1,337,357</u>

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IV. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The components of interfund balances as of June 30, 2005 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Clean Fuels Program Fund	\$ 3,608,496
General Fund	Carl Moyer Program Fund	73,615
General Fund	Other Governmental Funds	312,914
Clean Fuels Program Fund	General Fund	62,550
Other Governmental Funds	General Fund	4,955
Retirement Benefit Trust Fund	General Fund	508
Total		<u>\$ 4,063,038</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2005, consisted of the following amounts:

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>			<u>Total</u>
	<u>Governmental</u>			
	<u>Clean Fuels Program Fund</u>	<u>LADWP Settlement Fund</u>	<u>Natural Gas Vehicle Partnership</u>	
Clean Fuels Conference Fund	\$ 200,000	\$ -	\$ -	\$ 200,000
Clean Fuels Program Fund	-	66,950	25,000	91,950
Total	<u>\$ 200,000</u>	<u>\$ 66,950</u>	<u>\$ 25,000</u>	<u>\$ 291,950</u>

The AQMD Governing Board authorized a transfer back in the amount of \$200,000 from the Clean Fuels Conference Fund into the Clean Fuels Program Fund at the completion of the Hydrogen Conference. The conference was held in August 2004.

The transfer of \$66,950 to the Los Angeles Department of Water and Power (LADWP) Settlement Fund was authorized by the Governing Board for the reimbursement of the electric lawn mowers buy-down by the people residing within the LADWP jurisdiction.

The transfer into the Natural Gas Vehicle Partnership (Partnership) in the amount of \$25,000 represents the amount authorized by the Governing Board as AQMD's contribution to the Partnership.

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V. CAPITAL ASSETS

In compliance with GASB Statement 34 reporting, the AQMD has reported all capital assets in the Government-wide Statement of Net Assets. Changes in capital assets of the AQMD for the year ended June 30, 2005 are as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2005</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 8,829,792	\$ -	\$ -	\$ 8,829,792
Total Capital Assets not being Depreciated	<u>8,829,792</u>	<u>-</u>	<u>-</u>	<u>8,829,792</u>
Capital Assets being Depreciated:				
Buildings and Improvements	73,687,651	100,186	(16,497)	73,771,340
Equipment	<u>22,587,334</u>	<u>1,701,113</u>	<u>(3,495,413)</u>	<u>20,793,034</u>
Total Capital Assets being Depreciated	<u>96,274,985</u>	<u>1,801,299</u>	<u>(3,511,910)</u>	<u>94,564,374</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(30,435,845)	(2,635,843)	4,402	(33,067,286)
Equipment	<u>(16,184,813)</u>	<u>(2,228,531)</u>	<u>2,870,363</u>	<u>(15,542,981)</u>
Total Accumulated Depreciation	<u>(46,620,658)</u>	<u>(4,864,374)</u>	<u>2,874,765</u>	<u>(48,610,267)</u>
Net Capital Assets being Depreciated	<u>49,654,327</u>	<u>(3,063,075)</u>	<u>(637,145)</u>	<u>45,954,107</u>
Net Capital Assets, Governmental Activities	\$ <u>58,484,119</u>	\$ <u>(3,063,075)</u>	\$ <u>(637,145)</u>	\$ <u>54,783,899</u>
Business-Type Activities:				
Compressed Natural Gas (CNG) Fueling Station	\$ 608,476	\$ 1,724	\$ -	\$ 610,200
Total Capital Assets being Depreciated	<u>608,476</u>	<u>1,724</u>	<u>-</u>	<u>610,200</u>
Less Accumulated Depreciation	<u>(120,930)</u>	<u>(88,895)</u>	<u>-</u>	<u>(209,825)</u>
Net Capital Assets, Business-Type Activities	\$ <u>487,546</u>	\$ <u>(87,171)</u>	\$ <u>-</u>	\$ <u>400,375</u>

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For the year ended June 30, 2005, the depreciation expense of \$4,694,268 was charged to the AQMD's functions/programs in the governmental activities as follows:

Advance Clean Air Technology	\$ 164,295
Ensure Compliance with Clean Air Rules	1,862,604
Customer Service	301,066
Develop Programs to Achieve Clean Air	206,984
Develop Rules to Achieve Clean Air	276,997
Monitoring Air Quality	1,162,693
Permit Review	654,299
Policy Support	65,330
Total Depreciation Expense	<u>\$ 4,694,268</u>

VI. LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the AQMD for the year ended June 30, 2005:

	Balance July 1, 2004	Addition	Reduction	Balance June 30, 2005	Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental Activities:						
Claims Payable:						
General and Auto Liability	\$ 77,160	\$ 72,076	\$ 105,068	\$ 44,168	\$ 17,667	\$ 26,501
Workers' Compensation	925,052	676,143	297,452	1,303,743	352,011	951,732
Compensated Absences	11,111,418	572,681	378,403	11,305,696	358,909	10,946,787
Installment Sale Obligation:						
Building	53,250,000	-	4,515,000	48,735,000	4,540,000	44,195,000
Installment Pension						
Obligation Bonds	<u>72,261,896</u>	<u>-</u>	<u>1,835,000</u>	<u>70,426,896</u>	<u>2,970,000</u>	<u>67,456,896</u>
	<u>\$137,625,526</u>	<u>\$1,320,900</u>	<u>\$7,130,923</u>	<u>\$131,815,503</u>	<u>\$8,238,587</u>	<u>\$123,576,916</u>

In prior years, claims payable and compensated absences have been liquidated primarily by the General Fund.

1995 Pension Obligation Bonds

On December 1, 1995, the AQMD, jointly with the County of San Bernardino, issued bonds to retire the Unfunded Actuarial Accrued Liability (UAAL) due to San Bernardino County Employees' Retirement Association (SBCERA). The AQMD issued a \$34,261,896 aggregate principal amount to refund its portion of the obligation to SBCERA. The purpose of this refunding was to lower the cost to the AQMD through the issuance of bonds at rates that are lower than those assessed by SBCERA and to restructure its debt service from an ascending to a level-debt-service schedule. These changes will result in estimated total gross debt service savings of \$20,151,420 through June 30, 2022. During the fiscal year ended June 30, 2005, \$1,835,000 in principal and \$1,232,598 in interest were paid on the bonds. The principal balance outstanding at June 30, 2005 amounted to \$23,396,896.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
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The annual payment requirements under the 1995 installment pension bond obligation are as follows:

Year Ending June 30	Principal	Interest	Total
2006	\$ 1,960,000	\$ 1,106,022	\$ 3,066,022
2007	2,095,000	969,859	3,064,859
2008	2,245,000	822,816	3,067,816
2009	2,400,000	663,933	3,063,933
2010	2,575,000	492,141	3,067,141
2011-2015	8,195,416	7,130,842	15,326,258
2016-2020	3,009,156	12,315,844	15,325,000
2021-2022	917,324	5,212,676	6,130,000
Total	<u>\$ 23,396,896</u>	<u>\$ 28,714,133</u>	<u>\$ 52,111,029</u>

Series 2004 Pension Obligation Bonds

On June 29, 2004, the AQMD issued and sold taxable pension obligation bonds to retire the Unfunded Actuarial Accrued Liability (UAAL) due to the San Bernardino County Employees' Retirement Association. The issuance and sale of \$47,030,000 will result in estimated total gross debt service savings of \$22.4 million through August 1, 2023.

The Series 2004 Pension Obligation Bonds are payable on a parity with the 1995 Pension Obligation Bonds. The AQMD may, from time to time, enter into supplemental indentures without the consent of the Bond Owners of the 1995 Bonds or Series 2004 Bonds for the purpose of providing for the issuance of additional series of Pension Obligation Bonds or to refund any other evidences of indebtedness of the AQMD arising pursuant to the Retirement Law.

The annual payment requirements under installment pension bond obligation, Series 2004, are as follows:

Year Ending June 30	Principal	Interest	Total
2006	\$ 1,010,000	\$ 2,539,064	\$ 3,549,064
2007	1,210,000	2,486,340	3,696,340
2008	1,430,000	2,423,640	3,853,640
2009	1,670,000	2,350,014	4,020,014
2010	1,925,000	2,264,633	4,189,633
2011-2015	10,835,000	9,801,803	20,636,803
2016-2020	14,230,000	6,400,180	20,630,180
2021-2024	14,720,000	1,794,424	16,514,424
Total	<u>\$ 47,030,000</u>	<u>\$ 30,060,098</u>	<u>\$ 77,090,098</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Installment Sale Revenue Bonds

On September 1, 1989, the Corporation issued Installment Sale Revenue Bonds, 1989 Series B in the amount of \$60,000,000. The bonds are secured by a pledge of the semiannual payments to be made by the AQMD pursuant to an Installment Purchase Agreement between the Corporation and the AQMD, whereby the AQMD is required to make debt service payments on the Corporation's bonds. The principal portion of these payments was used for the purchase of furnishings and equipment for the AQMD in conjunction with the construction of its new headquarters. Title to such assets transferred to the AQMD simultaneously with the Corporation's purchase. As of June 30, 2005, the remaining balance is \$14,760,000.

The Series 1992 Installment Sale Revenue Bonds, original issuance amount of \$69,745,000 were issued on December 1, 1992, to refund portions of the 1988 Series A and 1989 Series B bonds. As of June 30, 2005, the remaining principal balance on the Series 1992 bonds is \$8,615,000. This remaining balance in the amount of \$5,375,000 and \$3,240,000 are due on August 1, 2010 and August 1, 2011, respectively. Interest is payable on each February 1st and August 1st and is computed based upon a 6% interest rate.

On June 1, 2002, the Corporation issued \$26,820,000 in Installment Sale Revenue Bonds with interest rates ranging from 2.75% to 4.25% to refund \$25,460,000 of the Series 1992 bonds with interest rates ranging from 4.00% to 6.00%. As of June 30, 2005, the remaining balance is \$25,360,000.

Principal payments on the Series 2002 bonds are due in installments ending August 1, 2014. Interest is payable on each February 1st and August 1st.

The annual payment requirements under the installment purchase agreement are as follows:

Year Ending June 30	Principal	Interest	Total
2006	\$ 4,540,000	\$ 1,519,980	\$6,059,980
2007	4,565,000	1,494,105	6,059,105
2008	4,595,000	1,464,011	6,059,011
2009	4,625,000	1,428,342	6,053,342
2010	4,665,000	1,316,342	5,981,342
2011-2015	<u>25,745,000</u>	<u>2,702,922</u>	<u>28,447,922</u>
Total	<u>\$ 48,735,000</u>	<u>\$ 9,925,702</u>	<u>\$ 58,660,702</u>

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

Allocation of Interest Expenses

Total interest expenses on long-term debt for the year ended June 30, 2005 amounted to \$4,946,466. The following is the interest expense allocated to the various functional activities categories:

Advance Clean Air Technology	\$ 212,698
Ensure Compliance with Clean Air Rules	1,780,728
Customer Service	519,379
Develop Programs to Achieve Clean Air	346,252
Develop Rules to Achieve Clean Air	380,878
Monitoring Air Quality	469,914
Permit Review	1,132,741
Policy Support	103,876
Total Interest on Long-term Debt	\$ <u>4,946,466</u>

VII. RISK MANAGEMENT

The AQMD's risk management program is responsible for purchasing insurance when available and cost-effective, self-insuring other exposures to loss when feasible.

The AQMD carries \$122,320,452 of property insurance including boiler and machinery (with \$25 million of earthquake and flood coverage), \$10 million for directors' and officers' liability (including employment practice liability), \$1 million for employee dishonesty and theft, \$6 million for excess general and automobile losses in excess of \$1 million, and excess workers' compensation for losses over \$750,000. In addition, the AQMD is self-insured for general and automobile liability for losses up to \$1 million and for workers' compensation for losses over \$750,000. As of June 30, 2005, \$1,303,743 and \$44,168, respectively, had been accrued for workers' compensation and general liability claims.

An appropriate amount has been recorded in the General Fund's financial statements to the extent that the AQMD anticipates that these amounts will be paid from current resources. While the ultimate amount of losses incurred through June 30, 2005, is dependent on future development based upon information from the independent claims' administrator and others involved with the administration of the programs, the AQMD management believes that the aggregate accrual is adequate to cover such losses.

No significant reduction in insurance coverage occurred during the last three fiscal years. Also, during this period, no claim settlement exceeded insurance coverage.

The following represents changes in the aggregate liabilities for claims of the AQMD's general liability and workers' compensation for the years ended June 30, 2004 and 2005:

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
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June 30, 2005**

	<u>General and Auto Liability</u>	<u>Workers' Compensation</u>	<u>Totals</u>
Claims Payable, July 1, 2003	\$ 201,571	\$ 475,170	\$ 676,741
Current Year Claims and Changes in Estimates	105,419	708,300	813,719
Claims Payments	<u>(229,830)</u>	<u>(258,418)</u>	<u>(488,248)</u>
Claims Payable, June 30, 2004	<u>\$ 77,160</u>	<u>\$ 925,052</u>	<u>\$ 1,002,212</u>
Claims Payable, July 1, 2004	\$ 77,160	\$ 925,052	\$ 1,002,212
Current Year Claims and Changes in Estimates	72,076	676,143	748,219
Claims Payments	<u>(105,068)</u>	<u>(297,452)</u>	<u>(402,520)</u>
Claims Payable, June 30, 2005	<u>\$ 44,168</u>	<u>\$ 1,303,743</u>	<u>\$ 1,347,911</u>

VIII. RETIREMENT PLANS

Substantially all of the AQMD's employees are members of either the Los Angeles County Employees' Retirement Association (LACERA) or the San Bernardino County Employees' Retirement Association (SBCERA). Benefits are funded by the AQMD and employee contributions. The AQMD's contributions for the year ended June 30, 2005 amounted to \$9,139,079 (\$16,212 to LACERA and \$9,122,867 to SBCERA).

In 1977, AQMD employees who were members of the LACERA system were given the option to transfer to the SBCERA system. Some employees decided to stay with LACERA. Most have already left employment and during FY 04-05 there were only two active LACERA members.

Los Angeles County Employees' Retirement Association

The AQMD contributes to the LACERA, a cost-sharing multi-employer defined benefit plan. This public employee retirement system acts as a common investment and administrative agent for the County of Los Angeles and other participating agencies including the AQMD. The AQMD's payroll for two employees covered by LACERA for the year ended June 30, 2005 was \$103,076. The AQMD's contribution for the same period was \$16,212. Copies of LACERA's annual financial report may be obtained from their executive office: 300 N. Lake Avenue, Pasadena, CA 91101.

San Bernardino County Employees' Retirement Association

Plan Description

The AQMD contributes to the SBCERA, a cost-sharing multiple-employer defined benefit pension plan operating under the California County Employees Retirement Act of 1937. SBCERA is controlled by its own board, the Board of Retirement. It acts as a fiduciary agent for the accounting and control of employer and employee contributions, and

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

investment income for San Bernardino County and other participating members including the AQMD. SBCERA issues a separate comprehensive annual financial report. Copies of SBCERA's annual financial report may be obtained from their executive office: 348 W. Hospitality Lane – 3rd Floor, San Bernardino, CA 92415.

All full-time employees become eligible to participate in SBCERA and related benefits, on their first day of regular employment and become fully vested after five years of service. General members are eligible for retirement benefits upon completion of ten years of service and attaining age 50, or 30 years of service regardless of age. Retirement benefits are calculated at 2% of final compensation for each completed year of service based on a normal retirement age of 55 for general members. The plan also provides disability benefits to members and death benefits to beneficiaries of members.

Funding Policy

Participants are required to contribute a percentage of their annual compensation to the plan based on the participant's age at entry into the plan. The AQMD (a participating member) contributes an amount based on actuarial assumptions that, together with employee contributions, is intended to provide sufficient reserves for payment of all prospective benefits to members. The AQMD is required to contribute at an actuarially-determined rate. The required employer contribution rates for the year ended June 30, 2005 were 16.34% for management, confidential and any employee who started before July 1, 1979 and 13.85% for non-management and non-confidential employees who started on or after July 1, 1979. The contribution requirements of the Plan members are established by State statute and may be amended by SBCERA Board of Retirement.

Annual Pension Cost

For the year ended June 30, 2005, the AQMD's annual pension cost and actual contributions for its 736 employees who are SBCERA members were \$9,122,867. The AQMD employee contributions to the plan amounted to \$1,350,796. The required contributions for the year ended June 30, 2005 were determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) investment rate of return, compounded semi-annually, 8.00% per annum; (b) projected salary increases of 4.25% per annum; and (c) cost of living adjustments for retirees contingent upon CPI with a 2% maximum. Both (a) and (b) include an inflation component of 4.00%.

The actuarial value of the Plan's assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five year period (smoothed market value). SBCERA's unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over a twenty-year period. Future components of the UAAL will be amortized over separate twenty-year period.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005**

Three-Year Trend Information for the Plan

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$9,122,867	100%	-
2004	\$9,823,094	100%	-
2003	\$4,357,801	100%	-

IX. DEFERRED COMPENSATION PLAN

The AQMD 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.

Effective January 1, 1999, federal legislation requires the Section 457 plan assets to be placed in trust for the exclusive use of the plan participants and their beneficiaries. The AQMD's deferred compensation administrator Hartford Life Insurance Co. qualifies as the plan trustee to meet the federal requirements. In accordance with GASB Statement 32, the AQMD no longer reports the plan assets and liabilities in its financial statements. As of June 30, 2005, investments with a fair value of \$56,191,779 are held in trust.

X. COMMITMENTS

Guaranteed Loans

The Air Quality Assistance Fund (AQAF) was originally established to comply with state legislation which required the AQMD to allocate a portion of the funds it receives as penalties and settlements from violators of air pollution regulations and to provide financing assistance to small businesses that require financing in order to comply with the AQMD requirements. This was repealed by its own terms on January 1, 1999. In June 2000, the Governing Board authorized staff to continue to use the funds to assist small businesses with an improved program for greater participation. Financing assistance includes guaranteeing or otherwise reducing the financial risks of lenders in providing financial assistance to small businesses. The funds are not used for direct loans to small businesses.

In June 2001, the AQMD entered into an agreement with the California Pollution Control Financing Authority (CPCFA) to be an "independent contributor" to the California Capital Access Program (CalCAP). The AQMD transferred \$100,000 to the CPCFA to cover

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

borrower fees on any qualified small business CalCAP loans for air quality-related equipment or processes. As of June 30, 2003, all loans that were guaranteed by the AQAF have already matured. As of June 30, 2004, AQMP provided a 50% partial guarantee on defaulted loans in the amount of \$30,779; no recoveries were made on these defaulted loans. AQAF's fund balance amounted to \$2,415,146 at fiscal year ended June 30, 2005.

Operating Leases

Rental expense for noncancelable operating leases was \$532,789 for the year ended June 30, 2005. Future minimum lease payments under noncancelable operating leases of the AQMD total as follows:

Year Ending June 30, 2006	\$ 468,874
Through September 30, 2006	<u>25,245</u>
Total	\$ <u>494,119</u>

The lease for the office equipment expires in July 2006 while the lease of the South Bay satellite office expires September 30, 2006.

XI. PENDING LITIGATION

A lawsuit has been filed, Engine Manufacturers Association v AQMD, which includes a claim for attorney's fees which could amount to \$3,000,000. The AQMD has recognized an accrual for such probable liability. In addition, there is a lawsuit, George v AQMD, which includes a claim for attorney's fees. No amount has been accrued for the George v AQMD case since AQMD's insurance coverage will be sufficient to cover the claim for attorney's fees. A number of other lawsuits and claims are pending against the AQMD for alleged damages to persons and property and for other alleged liabilities arising out of its normal operations. The AQMD's management believes that any liability that may arise from the ultimate resolution of such legal actions will not have a material adverse impact on the financial position as of June 30, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
GENERAL FUND - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
For the Year Ended June 30, 2005**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Emission fees	\$ 19,261,000	\$ 19,261,000	\$ 19,434,549	\$ 173,549
Annual operating fees	29,236,138	29,236,138	28,876,817	(359,321)
Permit fees	15,299,497	15,299,497	14,114,680	(1,184,817)
Clean fuels mobile / stationary sources	16,653,300	18,269,909	20,441,982	2,172,073
Air toxics	1,432,400	1,432,400	1,614,851	182,451
Transportation	746,750	746,750	869,554	122,804
State subvention	4,025,000	4,025,000	4,024,268	(732)
Federal grant	6,200,000	9,026,772	6,953,187	(2,073,585)
State grant	-	-	87,831	87,831
Interest	664,600	664,600	1,273,901	609,301
Lease revenue	346,616	346,616	338,961	(7,655)
Source test/analysis fees	475,650	475,650	321,526	(154,124)
Hearing Board	388,001	388,001	251,212	(136,789)
Penalties/settlements	4,000,000	4,000,000	11,295,895	7,295,895
Subscriptions	50,800	50,800	29,512	(21,288)
Other revenue	400,000	422,500	2,992,685	2,570,185
Total revenues	99,179,752	103,645,633	112,921,411	9,275,778
Expenditures:				
Current:				
Salaries and employee benefits	76,741,912	77,524,999	73,791,627	3,733,372
Insurance	1,369,860	1,369,860	1,020,119	349,741
Rent	734,476	757,838	768,857	(11,019)
Supplies	2,406,779	2,612,266	2,098,907	513,359
Contract and special services	7,015,317	10,488,076	8,682,728	1,805,348
Maintenance	1,043,130	1,187,661	1,008,619	179,042
Travel and auto	437,200	528,468	433,606	94,862
Utilities	1,762,015	1,746,514	1,414,156	332,358
Communications	623,000	633,920	491,337	142,583
Uncollectible accounts	-	-	159,290	(159,290)
Other	870,955	902,672	726,063	176,609
Capital outlays	216,000	1,206,930	949,713	257,217
Debt service:				
Principal	6,350,000	6,350,000	6,350,000	-
Interest	2,777,187	4,286,542	4,286,541	1
Total expenditures	102,347,831	109,595,746	102,181,563	7,414,183
Net change in budgetary fund balances	\$ (3,168,079)	\$ (5,950,113)	\$ 10,739,848	\$ 16,689,961

See accompanying notes to required supplementary information and independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2005**

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

The AQMD has a comprehensive annual budget process which establishes goals and objectives and monitors expenditures associated with meeting those goals and objectives.

Up to and including the budget adoption hearing by AQMD's Governing Board, the public and the business community have several opportunities to participate in the budget process. These opportunities include: Budget Advisory Committee meetings made up of business and environmental representatives, two public workshops, and two public hearings.

Following input from the public, Budget Advisory Committee, and Governing Board, the draft budget for the ensuing fiscal year is prepared and made available for adoption at the June meeting of the Governing Board. The adopted budget and the final fee schedules are effective on July 1.

The AQMD's annual budget is adopted for the General Fund at the Major Object levels of Salaries & Employee Benefits, Services & Supplies, Capital Outlays, and Building Remodeling. The Governing Board has delegated expenditure authority to the Executive Officer for all budgeted expenditures of \$50,000 or less within a major object. All appropriations to the budget and transfers between major objects must be approved by the Governing Board. Transfers within a major object are delegated to the Executive Officer. Monthly expenditure reports are issued to each Office. The Governing Board receives detailed semi-annual reports regarding contract activity, along with a fiscal year-end report of all budget transfers and Board appropriations.

The AQMD presents a comparison of annual budget to actual results for the General Fund. The budgeted expenditure amounts represent the adopted budget adjusted for Governing Board approved supplemental appropriations. The budgeted revenue amounts represent the adopted budget modified for Governing Board approved adjustments which were based upon new or additional revenue sources. Supplemental expenditure appropriations of \$7,247,915 and revenue adjustments of \$4,465,881 were approved by the Governing Board in FY 04-05.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2005

NOTE 2 – GENERAL FUND BUDGETARY BASIS RECONCILIATION

The General Fund Budgetary Basis on page 53 presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing expenditures data on a budgetary basis differ from those used to present financial statements in conformity with Generally Accepted Accounting Principles (GAAP), the following is a reconciliation of differences for the fiscal year ended June 30, 2005:

Expenditures and encumbrances (budgetary basis), June 30, 2005	\$102,181,563
Add: payments on encumbrances open at July 1, 2004	5,041,939
Less: encumbrances open at June 30, 2005	<u>2,661,758</u>
Expenditures (GAAP basis), June 30, 2005	<u>\$104,561,744</u>

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

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OTHER SUPPLEMENTARY INFORMATION

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2005**

Non-major Governmental Funds

Special Revenue Funds:

- Air Quality Studies Fund - Used to account for contributions made by outside organizations to fund various air quality studies. An independent Planning Review Panel recommends the types of studies to be undertaken and the Executive Officer approves all studies prior to funding. The purpose of the studies is to quantify the cost effectiveness of air pollution control measures.
- Air Toxics Fund - Used to account for fees received from industrial toxic air emitters. These funds are spent on planning and performing health risk evaluations for the purpose of developing a toxic emissions inventory for the South Coast Air Basin.
- Advanced Technology, Outreach and Education Fund – Used to account for monies contributed by companies in lieu of paying fines for violating AQMD rules. Contributed amounts must be used to pay costs associated with AQMD-sponsored research and development in cleaner burning fuels and other advanced technologies and public outreach and education related to advanced technology and air pollution and its impacts.
- Air Quality Assistance Fund - Used to account for funds set aside for the purpose of underwriting, guaranteeing, or otherwise participating in the provision of financial assistance to small businesses as required by Section 40448.7 of the California Health and Safety Code. (This section was repealed by its own terms January 1, 1999). In June 2000, the Governing Board authorized staff to revise the program to increase participation of small businesses. Certain revisions, including participation in the California Capital Access Program (CalCAP) to assist small businesses, were implemented in June 2001.
- Clean Fuels Conference Fund – Renamed the Fuel Cells Conference Fund to the Clean Fuels Conference Fund in fiscal year 2004 to account for monies received to fund all Clean Fuels related conferences. These conferences are held to facilitate the development of hydrogen-powered technologies, including motor vehicles, refueling infrastructure, and stationary applications.
- Air Quality Investment Program – Is one of the compliance options available to employers with 250 or more employees at a worksite who are subject to Rule 2202. This revenue is used to purchase emissions reductions credits to meet the required target. To date, \$32.78 million projects have been awarded to purchase over 23,629

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2005**

tons of emission reductions. During fiscal year 2005, 7 contracts were awarded in the amount of \$3.9 million.

RECLAIM AQIP - Established in fiscal year 2001 to separately account for the generation of NO_x (Oxides of Nitrogen) credits at stationary and mobile sources for use by certain small or new RECLAIM (Regional Clean Air Incentives Market) participants. AQIP stands for Air Quality Investment Program.

RECLAIM and Executive Order Mitigation - Established in fiscal year 2001 to account for mitigation fee payments made by power generators in lieu of emission offsets. Proceeds are used to generate RECLAIM Trading Credits (RTCs) to offset excess emissions.

Rule 1121 Mitigation Fee Program – Established in fiscal year 2004 to issue program announcements for projects under the Rule 1121 Mitigation Fee Program. Under Rule 1121 – Control of Nitrogen Oxides (NO_x) from Residential Type, Natural Gas Fired Water Heaters, emission mitigation fees are collected from water heater manufacturers to fund stationary and mobile source emission reduction projects targeted at offsetting NO_x emissions from water heaters that do not currently meet Rule 1121 emissions standards.

- Lower Emission School Bus Fund – Established in fiscal year 2001 to account for activities related to the administering of state funds set aside for the replacement and retrofit of high-emitting diesel-fueled school buses in the South Coast Air Basin. Funding for a total of \$55.7 million for school bus replacement and particulate matter (PM) trap retrofit has been provided for the period of fiscal years 2000 through 2005. This has enabled public school districts to purchase 271 new Compressed Natural Gas (CNG) buses and 86 new lower emitting diesel buses. It has also enabled public school districts and private contractors to retrofit PM traps on 2,101 diesel buses.
- Zero Emission Vehicle Incentive Program – Established in fiscal year 2001 to administer the State funds set aside for the implementation of the Zero Emission Vehicle (ZEV) Incentive Program.
- State Emissions Mitigation Fund – Established during fiscal year 2002 to account for the funds received from California Air Resources Board (CARB) to fund CARB selected projects on emission reductions within the South Coast Air Basin. This is in response to the Governor's statewide program to mitigate excess emissions from peaker power generation units to alleviate the power crisis in California. The AQMD has elected to report this fund as a major fund in fiscal year 2003 to enhance reporting consistency from prior year to current fiscal year.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2005**

- AES Settlement Projects Fund – Established in fiscal year 2001 for the purpose of accounting for the one-time penalty settlement with AES Corporation for air pollution violations.
- Rule 1309.1 Priority Reserve Fund – Established in fiscal year 2001 to account for mitigation fees paid for Particulate Matter ≤ 10 microns (PM₁₀) credits. Due to the state energy crisis, Rule 1309.1 was amended to allow new electric generating facilities temporary access to AQMD's Priority Reserve Account to offset their PM₁₀ emission increases provided that they meet specific criteria and pay appropriate mitigation fees.
- CARB ERC Bank Fund – Established in fiscal year 2001 to account for the proceeds from the issuance of the Emission Reduction Credits (ERCs) to natural gas turbine power plant peaker units. CARB established the ERC Bank for peaker power plants that need emission offsets to add new or expanded capacity. Proceeds from the issuance of these ERCs will fund emission reduction programs where the new or expanded facility is located.
- LADWP Settlement Projects Fund – Established in fiscal year 2001 for the purpose of accounting for the monies received from the Los Angeles Department of Water and Power as part of the settlement agreement.
- Natural Gas Vehicle Partnership Fund – Established during fiscal year 2002 for creation of the Natural Gas Vehicle Partnership to facilitate the advancement of natural gas vehicle technology and deployment. The contributions received from participating members are accounted for in this fund as well as the expenditures for activities and projects selected by the Partnership.
- State Backup Generators (BUG) Program Fund – Established in fiscal year 2003 to account for the funds received from CARB's Diesel-Fueled Electrical Backup Generator Emissions Mitigation Program. This program funds emission related projects as part of an ongoing effort to expeditiously reduce public exposure to air toxics and other pollutants.
- SCAQMD Asthma and Brain Cancer Research Fund – Established in fiscal year 2003 to assist in funding research projects relating to asthma and outdoor air quality and the potential link between air pollution and brain cancer.
- Dry Cleaner Financial Incentives Grant Program – Established in fiscal year 2003 to provide financial incentives to dry cleaners to purchase non-toxic alternative dry cleaning equipment.
- Rule 1173 Mitigation Fee Fund – Established in fiscal year 2004 to account for Rule 1173 mitigation fee payments to be used in funding air quality projects which directly

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2005**

benefit the community surrounding the facility. Amendments in December 2002 to Rule 1173 for Refineries and Chemical Plants established a mitigation fee payment provision relating to the release of Volatile Organic Compound (VOC) from an atmospheric Pressure Relief Device (PRD).

- Communities for Better Environment (CBE)/Our Children's Earth (OCE) Settlement Agreement Fund – Established in FY 2004 as part of the settlement agreement to fund PM₁₀ (Particulate Matter ≤ 10 microns) and/or NO_x (Oxides of Nitrogen) reduction projects in disproportionately impacted areas.

Capital Projects Fund – Used to record transactions relating to the acquisition and construction of capital assets.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2005**

<u>Assets</u>	Special Revenue				
	<u>Air Quality Studies Fund</u>	<u>Air Toxics Fund</u>	<u>Advanced Technology Fund</u>	<u>Air Quality Assistance Fund</u>	<u>Clean Fuels Conference Fund</u>
Cash and cash equivalents	\$ 53,441	\$ 692,963	\$ 315,634	\$ 2,399,935	\$ 121,505
Interest receivable	322	3,427	1,980	15,211	-
Due from other governmental agencies	-	-	-	-	-
Due from other funds	-	-	-	-	-
Accounts receivable, net	-	1,142,962	-	-	-
Total assets	\$ 53,763	\$ 1,839,352	\$ 317,614	\$ 2,415,146	\$ 121,505
 <u>Liabilities and fund balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ -	\$ 1,015,300	\$ 54,431	\$ -	\$ -
Due to other funds	-	165,966	-	-	-
Total liabilities	-	1,181,266	54,431	-	-
 Fund balances:					
Reserved for encumbrances	-	-	156,400	-	-
Unreserved	53,763	658,086	106,783	2,415,146	121,505
Total fund balances	53,763	658,086	263,183	2,415,146	121,505
Total liabilities and fund balances	\$ 53,763	\$ 1,839,352	\$ 317,614	\$ 2,415,146	\$ 121,505

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2005**

<u>Assets</u>	Special Revenue				
	Air Quality Investment Fund	Lower-Emission School Bus Fund	Zero Emission Vehicle Incentive Fund	AES Settlement Projects Fund	Rule 1309.1 Priority Reserve Fund
Cash and cash equivalents	\$ 24,694,157	\$ 13,450,867	\$ 532,883	\$ 5,512,482	\$ 7,331,618
Interest receivable	148,020	83,262	3,285	31,671	44,572
Due from other governmental agencies	-	36,500	-	-	-
Due from other funds	4,955	-	-	-	-
Accounts receivable, net	6,875	-	-	-	-
Total assets	\$ 24,854,007	\$ 13,570,629	\$ 536,168	\$ 5,544,153	\$ 7,376,190
 <u>Liabilities and fund balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ 134,318	\$ 2,444,640	\$ 6,000	\$ -	\$ -
Due to other funds	146,948	-	-	-	-
Total liabilities	281,266	2,444,640	6,000	-	-
 Fund balances:					
Reserved for encumbrances	8,384,914	10,062,594	60,000	2,974,785	1,159,129
Unreserved	16,187,827	1,063,395	470,168	2,569,368	6,217,061
Total fund balances	24,572,741	11,125,989	530,168	5,544,153	7,376,190
Total liabilities and fund balances	\$ 24,854,007	\$ 13,570,629	\$ 536,168	\$ 5,544,153	\$ 7,376,190

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2005**

<u>Assets</u>	Special Revenue				
	CARB ERC Bank Fund	LADWP Settlement Fund	State-Emissions Mitigation Fund	Natural Gas Vehicle Partnership Fund	State BUG Program Fund
	Fund	Fund	Fund	Fund	Fund
Cash and cash equivalents	\$ 469,180	\$ 369,755	\$ 6,280,102	\$ 381,050	\$ 279,268
Interest receivable	3,159	1,937	44,444	2,484	1,683
Due from other governmental agencies	-	-	665,464	-	-
Due from other funds	-	-	-	-	-
Accounts receivable, net	-	-	-	-	-
Total assets	\$ 472,339	\$ 371,692	\$ 6,990,010	\$ 383,534	\$ 280,951
<u>Liabilities and fund balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ -	\$ 6,619	\$ 377,016	\$ 5,100	\$ -
Due to other funds	-	-	-	-	-
Total liabilities	-	6,619	377,016	5,100	-
Fund balances:					
Reserved for encumbrances	27,696	260,575	6,558,425	53,800	-
Unreserved	444,643	104,498	54,569	324,634	280,951
Total fund balances	472,339	365,073	6,612,994	378,434	280,951
Total liabilities and fund balances	\$ 472,339	\$ 371,692	\$ 6,990,010	\$ 383,534	\$ 280,951

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2005**

<u>Assets</u>	<u>Special Revenue</u>					<u>Total</u>
	<u>Asthma & Brain Cancer Research Fund</u>	<u>Dry Cleaners Financial Incentives Grant Prog Fund</u>	<u>Rule 1173 Mitigation Fee Fund</u>	<u>CBE / OCE Settlement Agreement Fund</u>	<u>Capital Projects Fund</u>	
Cash and cash equivalents	\$ 479,158	\$ 387,224	\$ 1,430,079	\$ 1,000,000	\$ -	\$ 66,181,301
Interest receivable	3,435	3,356	8,617	-	-	400,865
Due from other governmental agencies	-	-	-	-	-	701,964
Due from other funds	-	-	-	-	-	4,955
Accounts receivable, net	-	-	-	-	-	1,149,837
Total assets	\$ 482,593	\$ 390,580	\$ 1,438,696	\$ 1,000,000	\$ -	\$ 68,438,922
 <u>Liabilities and fund balances</u>						
Liabilities:						
Accounts payable & accrued liabilities	\$ 69,354	\$ 40,000	\$ -	\$ -	\$ -	\$ 4,152,778
Due to other funds	-	-	-	-	-	312,914
Total liabilities	69,354	40,000	-	-	-	4,465,692
 Fund balances:						
Reserved for encumbrances	285,033	-	-	723,640	-	30,706,991
Unreserved	128,206	350,580	1,438,696	276,360	-	33,266,239
Total fund balances	413,239	350,580	1,438,696	1,000,000	-	63,973,230
Total liabilities and fund balances	\$ 482,593	\$ 390,580	\$ 1,438,696	\$ 1,000,000	\$ -	\$ 68,438,922

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005**

	Special Revenue				
	Air Quality Studies Fund	Air Toxics Fund	Advanced Technology Fund	Air Quality Assistance Fund	Clean Fuels Conference Fund
Revenues:					
State grant	\$ -	\$ -	\$ -	\$ -	-
Federal grant	-	-	-	-	-
Interest	1,119	18,821	7,511	51,004	-
Reclaim & executive order mitigation	-	-	-	-	-
Other revenue	-	-	-	-	50,800
Total revenues	<u>1,119</u>	<u>18,821</u>	<u>7,511</u>	<u>51,004</u>	<u>50,800</u>
Expenditures:					
Contract and special services	-	543,132	137,348	-	116,211
Other operating expenditures	-	-	-	-	16,716
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	-	-	-	-
Total expenditures	<u>-</u>	<u>543,132</u>	<u>137,348</u>	<u>-</u>	<u>132,927</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>1,119</u>	<u>(524,311)</u>	<u>(129,837)</u>	<u>51,004</u>	<u>(82,127)</u>
Other financing sources (uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(200,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Net change in fund balances	<u>1,119</u>	<u>(524,311)</u>	<u>(129,837)</u>	<u>51,004</u>	<u>(282,127)</u>
Fund balances, July 1, 2004	<u>52,644</u>	<u>1,182,397</u>	<u>393,020</u>	<u>2,364,142</u>	<u>403,632</u>
Fund balances, June 30, 2005	<u>\$ 53,763</u>	<u>\$ 658,086</u>	<u>\$ 263,183</u>	<u>\$ 2,415,146</u>	<u>\$ 121,505</u>

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005**

	Special Revenue				
	Air Quality Investment Fund	Lower-Emission School Bus Fund	Zero Emission Vehicle Incentive Fund	AES Settlement Projects Fund	Rule 1309.1 Priority Reserve Fund
	Fund	Fund	Fund	Fund	Fund
Revenues:					
State grant	\$ -	\$ 2,037,250	\$ -	\$ -	\$ -
Federal grant	-	35,000	-	-	-
Interest	513,200	321,849	12,758	103,025	159,862
Reclaim & executive order mitigation	772,526	-	-	-	-
Other	2,757,262	-	-	-	-
Total revenues	<u>4,042,988</u>	<u>2,394,099</u>	<u>12,758</u>	<u>103,025</u>	<u>159,862</u>
Expenditures:					
Contract and special services	3,253,620	8,002,336	237,000	(535,837)	32,653
Other operating expenditures	-	-	-	-	-
Capital outlay	-	-	-	-	-
Uncollectible accounts	51,581	-	-	-	-
Total expenditures	<u>3,305,201</u>	<u>8,002,336</u>	<u>237,000</u>	<u>(535,837)</u>	<u>32,653</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>737,787</u>	<u>(5,608,237)</u>	<u>(224,242)</u>	<u>638,862</u>	<u>127,209</u>
Other financing sources (uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>737,787</u>	<u>(5,608,237)</u>	<u>(224,242)</u>	<u>638,862</u>	<u>127,209</u>
Fund balances, July 1, 2004	23,834,954	16,734,226	754,410	4,905,291	7,248,981
Fund balances, June 30, 2005	<u>\$ 24,572,741</u>	<u>\$ 11,125,989</u>	<u>\$ 530,168</u>	<u>\$ 5,544,153</u>	<u>\$ 7,376,190</u>

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005**

	Special Revenue				
	CARB ERC	LADWP	State-Emissions	Natural Gas	State BUG
	Bank Fund	Settlement Fund	Mitigation Program Fund	Vehicle Partnership Fund	Program Fund
Revenues:					
State grant	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grant	-	-	-	-	-
Interest	14,192	6,974	191,051	8,429	5,846
Reclaim & executive order mitigation	-	-	-	-	-
Other	-	-	665,464	95,000	-
Total revenues	<u>14,192</u>	<u>6,974</u>	<u>856,515</u>	<u>103,429</u>	<u>5,846</u>
Expenditures:					
Contract and special services	274,903	10,874	5,006,608	87,172	-
Other operating expenditures	-	66,950	-	6,169	-
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	-	-	-	-
Total expenditures	<u>274,903</u>	<u>77,824</u>	<u>5,006,608</u>	<u>93,341</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>(260,711)</u>	<u>(70,850)</u>	<u>(4,150,093)</u>	<u>10,088</u>	<u>5,846</u>
Other financing sources (uses)					
Transfers in	-	66,950	-	25,000	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>66,950</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
Net change in fund balances	<u>(260,711)</u>	<u>(3,900)</u>	<u>(4,150,093)</u>	<u>35,088</u>	<u>5,846</u>
Fund balances, July 1, 2004	<u>733,050</u>	<u>368,973</u>	<u>10,763,087</u>	<u>343,346</u>	<u>275,105</u>
Fund balances, June 30, 2005	<u>\$ 472,339</u>	<u>\$ 365,073</u>	<u>\$ 6,612,994</u>	<u>\$ 378,434</u>	<u>\$ 280,951</u>

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005**

	Special Revenue					Total
	Asthma & Brain Cancer Research Fund	Dry Cleaners Financial Incentives Grant Prog Fund	Rule 1173 Mitigation Fee Fund	CBE/OCE Settlement Agreement Fund	Capital Projects Fund	
Revenues:						
State grant	\$ -	\$ -	\$ -	\$ -	\$ -	2,037,250
Federal grant	-	-	-	-	-	35,000
Interest	13,476	17,472	29,938	-	-	1,476,527
Reclaim & executive order mitigation	-	-	-	-	-	772,526
Other	-	-	-	-	68,095	3,636,621
Total revenues	<u>13,476</u>	<u>17,472</u>	<u>29,938</u>	<u>-</u>	<u>68,095</u>	<u>7,957,924</u>
Expenditures:						
Contract and special services	336,722	875,000	-	-	-	18,377,742
Other operating expenditures	-	-	-	-	-	89,835
Capital outlay	-	-	-	-	68,095	68,095
Uncollectible accounts	-	-	-	-	-	51,581
Total expenditures	<u>336,722</u>	<u>875,000</u>	<u>-</u>	<u>-</u>	<u>68,095</u>	<u>18,587,253</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>(323,246)</u>	<u>(857,528)</u>	<u>29,938</u>	<u>-</u>	<u>-</u>	<u>(10,629,329)</u>
Other financial sources (uses)						
Transfers in	-	-	-	-	-	91,950
Transfers out	-	-	-	-	-	(200,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(108,050)</u>
Net change in fund balances	<u>(323,246)</u>	<u>(857,528)</u>	<u>29,938</u>	<u>-</u>	<u>-</u>	<u>(10,737,379)</u>
Fund balances, July 1, 2004	<u>736,485</u>	<u>1,208,108</u>	<u>1,408,758</u>	<u>1,000,000</u>	<u>-</u>	<u>74,710,609</u>
Fund balances, June 30, 2005	<u>\$ 413,239</u>	<u>\$ 350,580</u>	<u>\$ 1,438,696</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 63,973,230</u>

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 June 30, 2005**

	SCAQMD Building Corporation Fund	General Purpose Fund	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 517,017	\$ 42,530	\$ 559,547
Interest receivable	3,493	-	3,493
Total assets	\$ 520,510	\$ 42,530	\$ 563,040
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 520,510	\$ 42,530	\$ 563,040
Total liabilities	\$ 520,510	\$ 42,530	\$ 563,040

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
June 30, 2005**

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<u>General purpose fund</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 9,055	\$ 378,076	\$ 344,601	\$ 42,530
Due from other funds	391,669	-	391,669	-
Total assets	<u>\$ 400,724</u>	<u>\$ 378,076</u>	<u>\$ 736,270</u>	<u>\$ 42,530</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 400,724	\$ 378,076	\$ 736,270	\$ 42,530
Total liabilities	<u>\$ 400,724</u>	<u>\$ 378,076</u>	<u>\$ 736,270</u>	<u>\$ 42,530</u>
<u>SCAQMD building corporation fund</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 507,574	\$ 9,443	\$ -	\$ 517,017
Interest receivable	1,756	3,493	1,756	3,493
Total assets	<u>\$ 509,330</u>	<u>\$ 12,936</u>	<u>\$ 1,756</u>	<u>\$ 520,510</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 509,330	\$ 12,936	\$ 1,756	\$ 520,510
Total liabilities	<u>\$ 509,330</u>	<u>\$ 12,936</u>	<u>\$ 1,756</u>	<u>\$ 520,510</u>
<u>Total all agency funds</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 516,629	\$ 387,519	\$ 344,601	\$ 559,547
Interest receivable	1,756	3,493	1,756	3,493
Due from other funds	391,669	-	391,669	-
Total assets	<u>\$ 910,054</u>	<u>\$ 391,012</u>	<u>\$ 738,026</u>	<u>\$ 563,040</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 910,054	\$ 391,012	\$ 738,026	\$ 563,040
Total liabilities	<u>\$ 910,054</u>	<u>\$ 391,012</u>	<u>\$ 738,026</u>	<u>\$ 563,040</u>

See independent auditor's report.

STATISTICAL SECTION

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Schedule 1

Net Assets by Component

Last Four Fiscal Years

(accrual basis of accounting)

	Fiscal Year			
	2002	2003	2004	2005
Governmental Activities				
Investment in capital assets, net of related debt	4,829,117	4,007,380	5,234,119	6,048,899
Restricted for special projects/programs	211,924,204	201,000,882	198,796,776	227,089,120
Unrestricted	3,577,082	5,908,301	3,425,162	12,691,432
Total governmental activities net assets	<u>\$ 220,330,403</u>	<u>\$ 210,916,563</u>	<u>\$ 207,456,057</u>	<u>\$ 245,829,451</u>
Business-type Activities				
Investment in capital assets, net of related debt	-	565,013	487,546	400,375
Unrestricted	40,714	47,319	62,362	81,160
Total business-type activities net assets	<u>\$ 40,714</u>	<u>\$ 612,332</u>	<u>\$ 549,908</u>	<u>\$ 481,535</u>
Primary Government				
Investment in capital assets, net of related debt	4,829,117	4,572,393	5,721,665	6,449,274
Restricted for special projects/programs	211,924,204	201,000,882	198,796,776	227,089,120
Unrestricted	3,617,796	5,955,620	3,487,524	12,772,592
Total primary government net assets	<u>\$ 220,371,117</u>	<u>\$ 211,528,895</u>	<u>\$ 208,005,965</u>	<u>\$ 246,310,986</u>

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Schedule 2

Changes in Net Assets

Last Four Fiscal Years

(accrual basis of accounting)

	Fiscal Year			
	2002	2003	2004	2005
Expenses				
Governmental activities				
Advance clean air technology	\$ 4,484,278	\$ 5,910,075	\$ 7,225,970	\$ 4,944,961
Ensure compliance with clean air rules	32,780,500	33,217,922	38,270,688	37,105,994
Customer service	9,491,294	9,971,153	10,887,187	10,368,676
Develop programs to achieve clean air	5,618,177	6,178,611	7,857,571	6,997,206
Develop rules to achieve clean air	6,574,206	6,522,360	7,862,276	8,010,485
Monitoring air quality	9,827,518	9,973,509	11,810,641	11,443,601
Permit review	20,572,771	18,809,101	21,247,912	21,047,578
Policy support	2,226,376	2,547,327	2,509,232	2,921,860
Special funds activities	82,812,501	94,117,397	62,398,205	59,454,883
Total governmental activities expenses	<u>174,387,621</u>	<u>187,247,455</u>	<u>170,069,682</u>	<u>162,295,244</u>
Business-type activities:				
Clean air store	1,807	908	936	662
CNG fueling station	-	81,005	152,547	165,135
Total business-type activities expenses	<u>1,807</u>	<u>81,913</u>	<u>153,483</u>	<u>165,797</u>
Total primary government expenses	<u>\$ 174,389,428</u>	<u>\$ 187,329,368</u>	<u>\$ 170,223,165</u>	<u>\$ 162,461,041</u>
Program Revenues				
Government activities:				
Fees and charges				
Stationary Sources	\$ 65,737,827	\$ 62,835,710	\$ 61,932,425	\$ 64,925,373
Mobile Sources	10,272,434	10,245,290	10,787,342	14,716,865
Operating Grants and Subventions	10,434,312	7,434,924	9,679,283	8,100,573
Restricted Special Revenues Sources	118,891,866	81,194,075	60,731,099	87,747,227
Total governmental activities program revenues	<u>205,336,439</u>	<u>161,709,999</u>	<u>143,130,149</u>	<u>175,490,038</u>
Business-type activities:				
Clean Air Store/CNG fueling station	1,437	45,055	89,947	97,424
Total business-type activities program revenues	<u>1,437</u>	<u>45,055</u>	<u>89,947</u>	<u>97,424</u>
Total primary government program revenues	<u>\$ 205,337,876</u>	<u>\$ 161,755,054</u>	<u>\$ 143,220,096</u>	<u>\$ 175,587,462</u>
Net (Expense) Revenue				
Governmental activities	\$ 30,948,818	\$ (25,537,456)	\$ (26,939,533)	\$ 13,194,794
Business-type activities	(370)	(36,858)	(63,536)	(68,373)
Total primary government net (expenses) revenue	<u>\$ 30,948,448</u>	<u>\$ (25,574,314)</u>	<u>\$ (27,003,069)</u>	<u>\$ 13,126,421</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Grants and subventions - restricted to non-specific stationary source programs	\$ 2,956,739	\$ 2,965,584	\$ 2,962,415	\$ 2,964,713
Mobile sources - restricted to non-specific mobile source programs	6,285,053	5,621,411	6,229,842	6,282,933
Interest	1,605,953	1,547,626	845,849	1,273,901
Lease revenue	231,099	348,743	372,707	338,961
Penalties/settlement	4,559,936	5,795,147	12,232,181	11,295,895
Subscriptions	55,628	46,565	36,301	29,512
Other	760,551	407,016	799,732	2,992,685
Transfers	(25,000)	(608,476)	-	-
Total governmental activities	<u>16,429,959</u>	<u>16,123,616</u>	<u>23,479,027</u>	<u>25,178,600</u>
Business-type activities				
Interest	-	-	1,112	-
Transfers	25,000	608,476	-	-
Total business type activities	<u>25,000</u>	<u>608,476</u>	<u>1,112</u>	<u>-</u>
Total primary government revenue	<u>\$ 16,454,959</u>	<u>\$ 16,732,092</u>	<u>\$ 23,480,139</u>	<u>\$ 25,178,600</u>
Change in Net Assets				
Governmental activities	\$ 47,378,777	\$ (9,413,840)	\$ (3,460,506)	\$ 38,373,394
Business-type activities	24,630	571,618	(62,424)	(68,373)
Total primary government	<u>\$ 47,403,407</u>	<u>\$ (8,842,222)</u>	<u>\$ (3,522,930)</u>	<u>\$ 38,305,021</u>

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Schedule 3

Fund Balances of Government Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Fund										
Reserved	\$ 15,723,050	\$ 20,390,490	\$ 23,247,196	\$ 26,024,018	\$ 4,985,280	\$ 8,632,387	\$ 9,695,144	\$ 7,616,882	\$ 7,732,923	\$ 4,778,503
Unreserved	23,133,376	18,224,689	17,008,363	15,685,167	20,491,915	24,970,898	34,425,246	37,177,128	33,709,091	45,023,178
Total general fund	\$ 38,856,426	\$ 38,615,179	\$ 40,255,559	\$ 41,709,185	\$ 25,477,195	\$ 33,603,285	\$ 44,120,390	\$ 44,794,010	\$ 41,442,014	\$ 49,801,681
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 82,398,441	\$ 75,231,282	\$ 70,495,534	\$ 78,570,628
Unreserved, reported in:										
Special revenue funds	43,196,445	45,646,129	43,597,523	47,643,548	84,472,743	175,866,922	129,525,763	125,769,600	128,301,242	148,518,492
Capital Projects funds	-	-	-	76,840	-	-	-	-	-	-
Total all other governmental funds	\$ 43,196,445	\$ 45,646,129	\$ 43,597,523	\$ 47,720,388	\$ 84,472,743	\$ 175,866,922	\$ 211,924,204	\$ 201,000,882	\$ 198,796,776	\$ 227,089,120

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
Schedule 4

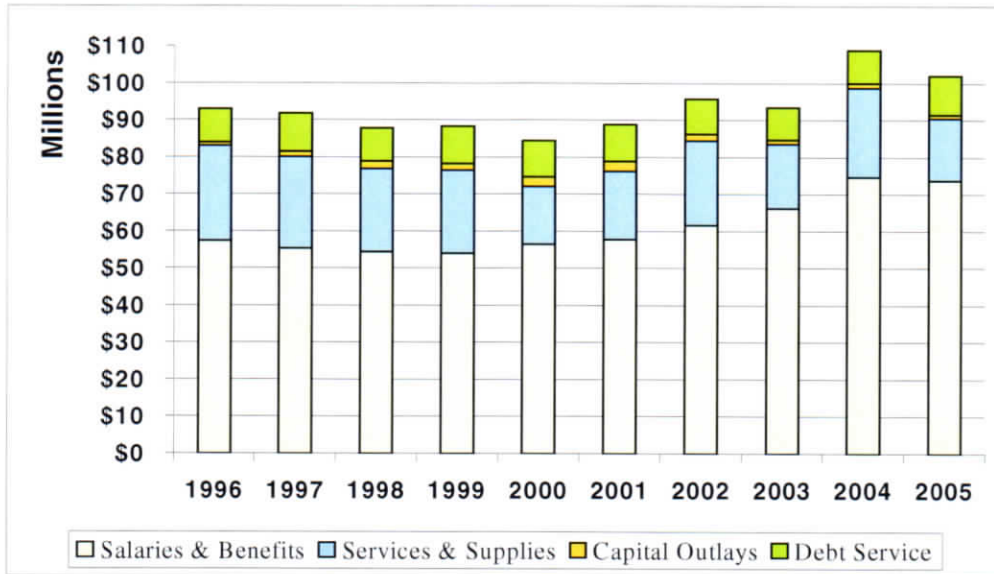
Changes in Fund Balances of Government Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenues:										
Emission fees	\$ 24,177,360	\$ 21,471,830	\$ 21,497,065	\$ 20,387,407	\$ 24,755,365	\$ 24,318,240	\$ 23,542,903	\$ 20,118,430	\$ 19,497,850	\$ 19,434,549
Annual operating fees	22,860,880	22,759,235	22,539,400	23,601,408	23,127,214	23,106,793	26,192,638	27,422,331	28,487,923	28,876,817
Permit fees	7,595,763	5,489,596	6,379,855	6,162,848	8,925,225	9,918,394	13,961,148	13,111,610	11,202,036	14,114,680
Clean fuel / Mobile / Stationary Sources	52,877,446	46,707,508	48,105,783	52,380,059	53,517,207	53,876,089	55,982,295	56,942,057	58,177,471	65,197,128
Emission reduction fees						17,223,928	2,300,000	13,054,700	375,000	
Air Toxics	1,494,342	3,153,185	1,452,413	1,098,478	1,233,376	1,753,022	1,413,000	1,575,096	1,429,658	1,614,851
Transportation	2,316,667	1,057,499	602,159	771,013	717,368	649,664	664,733	688,278	748,000	869,554
State subvention	3,012,776	3,035,134	2,965,942	2,960,026	2,962,521	6,069,654	6,053,883	4,394,639	4,021,970	4,024,268
Federal grant	4,270,169	4,527,415	4,080,561	3,540,119	4,722,731	4,201,547	6,531,262	6,005,869	8,443,715	6,988,187
State grant						53,642,620	40,707,602	6,666,447	10,425,742	11,253,989
Interest	4,564,731	5,322,164	5,574,096	5,755,521	5,938,718	8,549,236	9,576,467	6,384,743	3,678,244	5,444,958
Lease revenue	700,800	371,065	124,454	158,917	112,969	141,772	231,099	348,743	372,707	338,961
Source test/analysis fees	284,875	224,956	193,672	297,975	258,535	382,502	308,169	382,502	342,909	321,526
Hearing Board	474,338	302,301	374,061	343,052	262,977	427,769	319,969	276,677	373,924	251,212
Penalties/settlements	1,133,491	1,602,509	2,534,038	3,217,263	4,352,331	20,180,727	4,583,093	5,795,147	12,232,181	36,295,895
Contracts	44,814	11,323	13,757	11,090						
Subscriptions	73,871	180,511	112,230	98,258	64,236	63,113	55,628	46,565	36,301	29,512
Reclaim & executive order mitigation	5,987,149	718,838	1,347,834	588,855	535,463		16,524,066	626,187	601,086	772,526
Contributions	2,686,406	1,010,556	9,026,901	3,112,005	12,923,404	6,826,109	13,053,128	14,602,070	6,162,453	6,945,716
Other revenues	134,555,878	117,945,625	126,991,961	124,380,051	144,449,080	231,207,212	222,001,083	178,442,091	166,609,176	202,774,329
Expenditures:										
Salaries and employee benefits	57,394,804	55,391,589	54,400,689	53,982,139	56,450,869	57,712,043	61,650,177	66,242,716	74,539,634	73,791,627
Insurance	613,850	825,800	788,917	961,746	1,002,590	963,050	1,034,296	1,031,651	1,110,014	1,044,518
Rent	1,010,140	1,263,120	1,188,716	1,115,376	1,202,269	1,078,350	721,083	725,320	709,158	783,674
Supplies & merchandise purchased	2,330,215	2,714,061	2,750,937	2,475,922	2,487,057	2,845,119	3,024,880	3,093,574	2,045,772	2,235,088
Contract and special services	22,305,179	23,445,209	29,638,831	27,854,429	31,456,841	36,764,224	74,035,983	99,383,357	73,527,251	71,990,847
Maintenance	977,814	1,037,360	870,240	925,734	784,871	786,547	979,146	942,576	1,011,913	995,624
Travel and auto	391,072	388,770	418,433	462,841	457,998	446,901	457,566	452,749	445,748	433,606
Utilities	1,554,681	1,388,202	1,259,348	1,116,489	1,152,792	1,203,225	1,633,992	1,663,243	1,463,778	1,414,156
Communications	703,939	634,538	597,709	673,373	772,237	589,937	527,902	524,011	553,238	491,337
Settlement expense		200,000	310,000							
Uncollectible accounts	46,698	197,197	271,068	199,678	225,396	156,094	100,779	121,849	374,712	210,871
Other expenditures	16,368,124	16,490,163	16,353,414	16,588,759	15,925,973	16,122,103	19,002,627	4,289,650	5,293,618	1,084,056
Capital outlay	1,152,624	1,400,168	2,633,998	2,440,548	2,188,225	3,166,714	2,656,041	1,393,713	2,135,572	1,010,373
Debt service:										
Principal	4,788,566	4,803,780	10,020,493	5,101,064	5,335,818	5,673,289	5,737,855	6,025,000	6,040,000	6,350,000
Interest	4,272,866	5,552,231	5,506,960	4,905,462	4,475,778	4,179,347	3,859,569	2,802,384	2,914,873	4,286,541
Total expenditures	113,910,572	115,737,188	127,009,753	118,803,560	123,928,715	131,686,943	175,401,696	188,691,793	172,165,278	166,122,318
Excess (deficiency) of revenues over (under) expenditures	20,645,306	2,208,437	(17,792)	5,576,491	20,520,365	99,520,269	46,599,387	(10,249,702)	(5,556,102)	36,652,011
Other financing sources (uses):										
Proceeds of pension obligation bonds		70,000			21,406,545		547,149	7,398,853	14,700,000	291,950
Transfer in		(70,000)	(390,434)		(21,406,545)		(572,149)	(7,398,853)	(14,700,000)	(291,950)
Transfer out										
Total other financing sources (uses)							(25,000)		47,030,000	
Special items:										
Payment to retirement system and related costs									(47,030,000)	
Total Special item									(47,030,000)	
Net change in fund balances	\$ 20,645,306	\$ 2,208,437	\$ (408,226)	\$ 5,576,491	\$ 20,520,365	\$ 99,520,269	\$ 46,574,387	\$ (10,249,702)	\$ (5,556,102)	\$ 36,652,011
Debt service as a percentage of noncapital expenditures	8.0%	9.1%	12.5%	8.6%	8.1%	7.7%	5.6%	4.7%	5.3%	6.4%

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 5
 Expenditures by Major Object
 General Fund (Budgetary Basis)
 Last Ten Fiscal Years



Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1996	\$ 57,394,804	\$ 25,567,685	\$ 971,499	\$ 9,061,432	\$ 92,995,420
1997	55,391,589	24,694,376	1,377,936	10,356,011	91,819,912
1998	54,400,689	22,365,484	2,139,131	8,981,803	87,887,107
1999	53,982,139	22,428,955	1,916,009	10,006,526	88,333,629
2000	56,450,869	15,541,026	2,639,293	9,857,197	84,488,385
2001	57,712,043	18,438,222	2,778,896	9,852,641	88,781,802
2002	61,650,177	22,773,687	1,859,416	9,554,569	95,837,849
2003	66,242,716	17,275,182	1,155,130	8,827,384	93,500,412
2004	74,539,634	24,273,579	1,266,240	8,954,873	109,034,326
2005	73,791,627	16,803,682	949,713	10,636,541	102,181,563

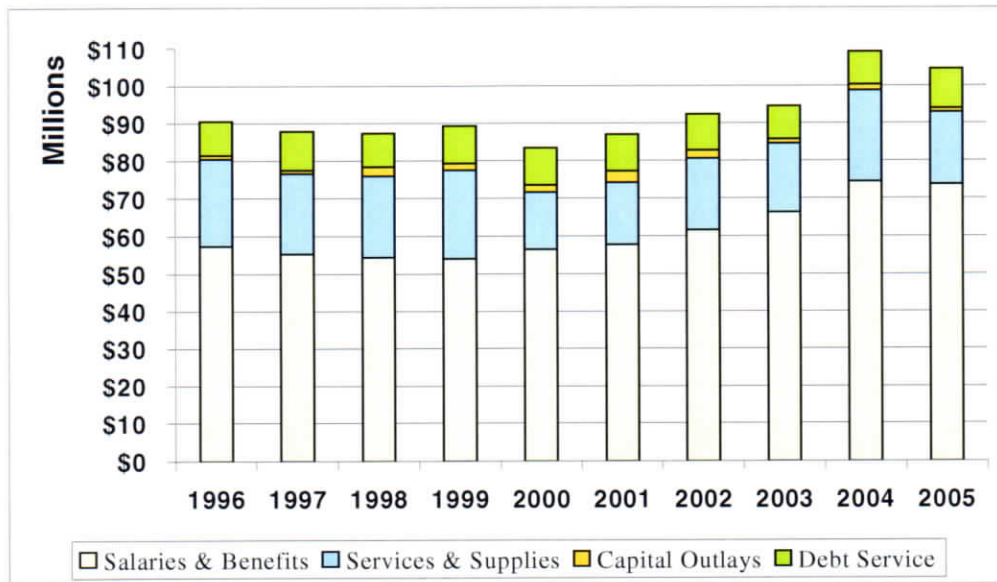
Notes:

- The 2000 and 2002 variances in Debt Service between the Budgetary Basis and the GAAP Basis relate to prior-year encumbrances for lease payments on cargo vans.
- The increase in Salaries & Benefits between 2003 and 2004 is due to rising retirement rates.
- The increase in Services & Supplies between 2003 and 2004 relates to \$3M in litigation expense for enforcement and \$2M in one-time Federal pass-through funds for the Green Airport Initiative.
- Pension Obligation Bonds issued late in FY 2003-04 increased debt service expenditures in FY 2004-05.

Source:

South Coast Air Quality Management District Audited Financial Statements

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 6
 Expenditures by Major Object
 General Fund (GAAP Basis)
 Last Ten Fiscal Years



Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1996	\$ 57,394,804	\$ 23,121,644	\$ 962,396	\$ 9,061,432	\$ 90,540,276
1997	55,391,589	21,214,777	999,917	10,356,011	87,962,294
1998	54,400,689	21,702,940	2,353,895	8,981,803	87,439,327
1999	53,982,139	23,638,243	1,743,935	10,006,526	89,370,843
2000	56,450,869	15,238,185	1,914,777	9,811,596	83,415,427
2001	57,712,043	16,517,122	2,998,691	9,852,641	87,080,497
2002	61,650,177	18,967,367	2,142,659	9,597,224	92,357,427
2003	66,242,716	18,352,510	1,151,786	8,827,384	94,574,396
2004	74,539,634	24,245,021	1,490,545	8,954,873	109,230,073
2005	73,791,627	19,191,298	942,278	10,636,541	104,561,744

Notes:

- The 2000 and 2002 variances in Debt Service between the Budgetary Basis and the GAAP Basis relate to prior-year encumbrances for lease payments on cargo vans.
- The increase in Salaries & Benefits between 2003 and 2004 is due to rising retirement rates.
- The increase in Services & Supplies between 2003 and 2004 relates to \$3M in litigation expense for enforcement and \$2M in one-time Federal pass-through funds for the Green Airport Initiative.
- Pension Obligation Bonds issued late in FY 2003-04 increased debt service expenditures in FY 2004-05.

Source:

South Coast Air Quality Management District Audited Financial Statements

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Schedule 7

Debt Capacity

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

(amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities						Percentage of Total Revenues (a)	Per Capita (b)
	Installment Sale Revenue Bonds	Pension Obligation Bonds	Equipment Purchase Agreement	Total Primary Government (a,b)				
1996	\$129,310	\$77,456	\$1,658	\$208,424		217.11%	\$ 14	
1997	122,406	75,563	99	198,068		225.97%	13	
1998	115,511	73,575	-	189,086		212.27%	13	
1999	97,840	70,508	-	168,348		185.36%	11	
2000	91,334	67,443	-	158,777		179.23%	10	
2001	84,834	64,376	-	149,210		156.72%	10	
2002	77,081	61,310	-	138,391		134.49%	9	
2003	70,610	58,243	-	128,853		132.50%	8	
2004	64,720	133,778	-	198,498		187.48%	12	
2005	58,661	129,201	-	187,862		166.37%	11	

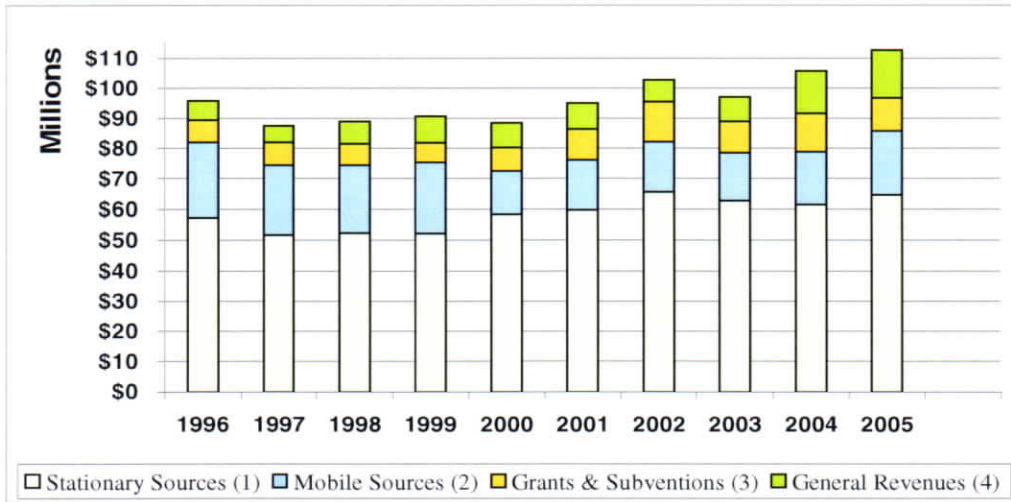
The South Coast Air Quality Management District is a regional government and is not authorized to issue long-term debt (General Obligation Bonds). The Installment Sale Revenue Bonds were issued by the South Coast Air Quality Management District Building Corp. (a component unit), secured by annual lease payments from the South Coast Air Quality Management District. The Pension Obligation Bonds are refunding bonds of outstanding debt owed the San Bernardino County Employees' Retirement Association. The South Coast Air Quality Management District has no long-term debt limits.

(a) These percentages are calculated using Total Revenues, Schedule 8 on page 77.

(b) See Schedule 13 on page 83 for population data.

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SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 8
 Revenues by Major Source
 General Fund
 Last Ten Fiscal Years



Year	Stationary Sources (1)	Mobile Sources (2)	Grants & Subventions (3)	General Revenues (4)	Total Revenues
1996	\$ 57,167,782	\$ 24,953,462	\$ 7,282,945	\$ 6,594,004	\$ 95,998,193
1997	51,675,393	22,903,017	7,562,549	5,510,088	87,651,047
1998	52,437,988	22,106,384	7,046,503	7,488,832	89,079,707
1999	52,179,703	23,259,971	6,500,145	8,884,650	90,824,469
2000	58,401,760	14,291,583	7,685,252	8,211,387	88,589,982
2001	59,741,735	16,520,766	10,271,201	8,672,885	95,206,587
2002	65,737,827	16,557,487	13,391,051	7,213,167	102,899,532
2003	62,835,710	15,866,701	10,400,508	8,145,097	97,248,016
2004	61,461,482	17,488,127	12,641,698	14,286,770	105,878,077
2005	64,613,635	21,311,536	11,065,286	15,930,954	112,921,411

(1) Includes Emissions, Annual Operating, Permit, Air Toxics, Source Test/Analysis, and Hearing Board fees

(2) Includes AB2766 Mobile Source, Clean Fuels, and Transportation Program revenues

(3) Includes State Subventions, State Grants and Federal Grants

(4) Includes Penalties & Settlements, Interest, Lease Revenue, Other Revenue and Subscriptions

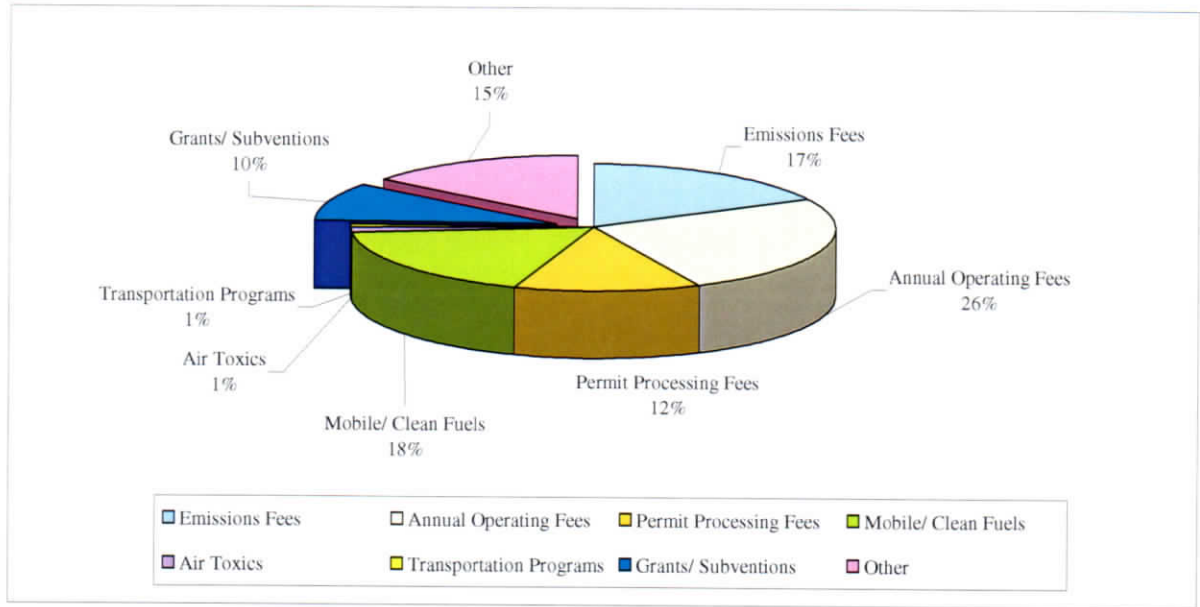
Notes:

- The decrease in Mobile Sources revenue in 2000 is due to the creation of a special Clean Fuels fund in September 1999 once the funding was re-authorized.
- The increase in 2001 and 2002 Grants & Subventions revenue relates to supplemental compliance grants and the increase in 2004 is associated with one-time Federal pass-through funds for the Green Airport Initiative.
- The increase in General Revenues in 2004 relates to a substantial penalty settlement.
- The increase in Stationary Source revenue in 2005 relates to a permit processing fee increase, additional expedited permit processing fees, and an increase in permit processing fee adjustments over the prior year.
- Mobile Sources revenue increased in 2005 due to reimbursements for Clean Fuels projects and an increase in the number of registered vehicles.

Source:

South Coast Air Quality Management District Audited Financial Statements

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 9
 Revenues by Fee Source
 General Fund
 FY 2004-05



Fee Source Revenue									
Year	Emissions Fees	Annual Operating Fees	Permit Processing Fees	Mobile/ Clean Fuels	Air Toxics	Transportation Programs	Grants/ Subventions	Other	Total
1996	\$ 24,177,360	\$ 22,860,880	\$ 7,595,763	\$ 22,636,795	\$ 1,729,752	\$ 2,316,667	\$ 7,282,945	\$ 7,398,031	\$ 95,998,193
1997	21,471,830	22,759,235	5,489,596	21,845,518	1,416,152	1,057,499	7,562,549	6,048,668	87,651,047
1998	21,497,065	22,539,400	6,379,855	21,504,225	1,372,438	602,159	7,046,503	8,138,062	89,079,707
1999	20,387,407	23,601,408	6,162,848	22,488,958	1,480,226	771,013	6,500,145	9,432,464	90,824,469
2000	24,755,365	23,127,214	8,925,225	13,574,215	1,033,004	717,368	7,685,252	8,772,339	88,589,982
2001	24,318,240	23,106,793	9,918,394	15,871,102	1,712,004	649,664	10,271,201	9,359,189	95,206,587
2002	23,542,903	26,192,638	13,961,148	15,892,754	1,413,000	664,733	13,391,051	7,841,305	102,899,532
2003	20,118,430	27,422,331	13,111,610	15,178,423	1,524,160	688,278	10,400,508	8,804,276	97,248,016
2004	19,497,850	28,487,923	11,202,036	16,740,121	1,556,840	748,006	12,641,698	15,003,603	105,878,077
2005	19,434,549	28,876,817	14,114,680	20,441,982	1,614,851	869,554	11,065,286	16,503,692	112,921,411

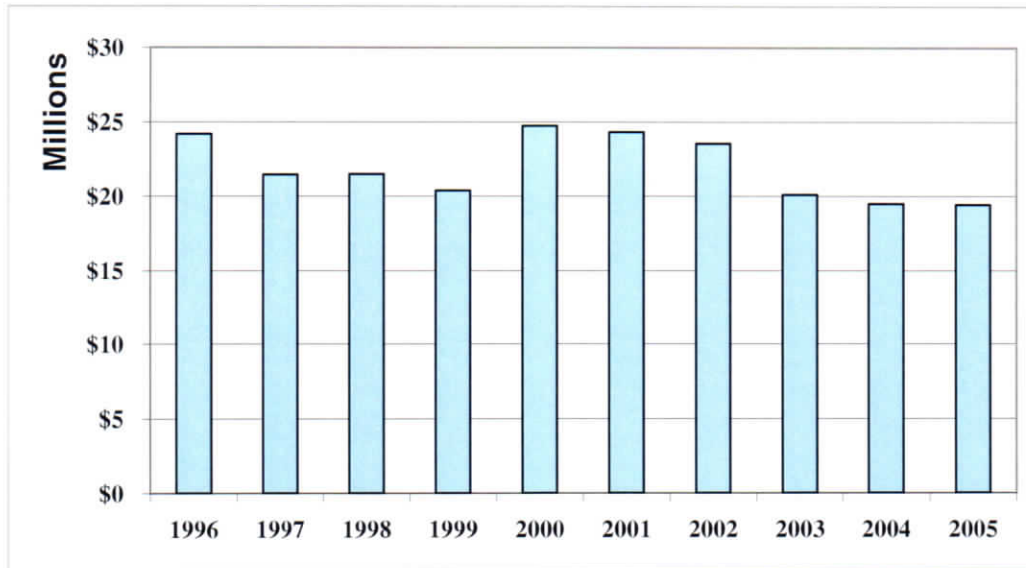
Notes:

- Other includes Penalties and Settlements, Interest, Source Test/Analysis Fees, Lease Revenue, Hearing Board, Other Revenue and Subscriptions
- The increase in Other Revenues in 2004 relates to a substantial penalty settlement.
- The increase in Stationary Source revenue in 2005 relates to a permit processing fee increase, additional expedited permit processing fees, and an increase in permit processing fee adjustments over the prior year.
- Mobile Sources revenue increased in 2005 due to reimbursements for Clean Fuels projects and an increase in the number of registered vehicles.

Source:

South Coast Air Quality Management District Audited Financial Statements

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 10
 Emission Fee Revenues
 Last Ten Fiscal Years



Year	Emission Fees
1996	\$ 24,177,360
1997	21,471,830
1998	21,497,065
1999	20,387,407
2000	24,755,365
2001	24,318,240
2002	23,542,903
2003	20,118,430
2004	19,497,850
2005	19,434,549

Notes:

The trend shows a continued reduction in emission fee revenues due to lower emissions as a result of additional emission controls placed on the Basin's emitters. The increase in emission fee revenues in fiscal years 2000-2002 relates to additional emission fee payments associated with the generation of increased emissions during the California energy crisis.

Source: South Coast Air Quality Management District Audited Financial Statements

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Schedule 11

Revenue Capacity

Largest Payers of Emission-Based Fees at a Single Location
Current Year and Ten Years Ago

Payer	FY 2004-05			FY 1994-95		
	Payment	Rank	% of Total Emission Fees	Payment	Rank	% of Total Emission Fees
Chevron Products	\$ 2,652,288	1	13.6%	\$ 1,827,419	2	7.6%
BP West Coast Products * (formerly ARCO)	1,582,455	2	8.1%	2,475,508	1	10.3%
ExxonMobil Oil (formerly Mobil)	1,516,081	3	7.8%	1,309,043	3	5.5%
ConocoPhillips * (formerly Union Oil)	970,396	4	5.0%	1,206,834	4	5.0%
Equilon Enterprises (formerly Texaco & Shell)	715,923	5	3.7%	1,167,175	5,20 **	4.9%
California Portland Cement	595,143	6	3.1%	661,227	7	2.8%
Ultramar	541,107	7	2.8%	674,670	6	2.8%
ConocoPhillips * (formerly Unocal Refining)	367,265	8	1.9%	444,717	8	1.9%
BP West Coast Products * (formerly ARCO)	246,297	9	1.3%	368,063	9	1.5%
LASCO Bathware	220,558	10	1.1%	-	-	-
Rhodia	184,962	11	1.0%	-	-	-
TABC	159,816	12	0.8%	-	-	-
Dart Container Corp. of California	150,732	13	0.8%	-	-	-
City of Long Beach, Serff Project	145,144	14	0.7%	-	-	-
Southern California Gas Company	140,581	15	0.7%	-	-	-
California Steel Industries	138,868	16	0.7%	-	-	-
Southern California Edison	135,010	17	0.7%	236,373	12	1.0%
Anheuser-Busch, Inc.	134,381	18	0.7%	-	-	-
City of Los Angeles, DWP	129,934	19	0.7%	333,701	10	1.4%
AERA Energy, LLC	110,373	20	0.6%	-	-	-
City of Los Angeles, DWP #2	-	-	-	-	-	-
Paramount Petroleum	-	-	-	270,662	11	1.1%
Powerine Oil	-	-	-	234,598	13	1.0%
Rhone-Poulenc Basic Chemical	-	-	-	234,407	14	1.0%
Owens-Brockway Glass Container	-	-	-	233,512	15	1.0%
AES Alamitos (formerly SCE)	-	-	-	226,955	16	0.9%
Southern California Edison	-	-	-	222,223	17	0.9%
Southern California Edison	-	-	-	214,668	18	0.9%
Southern California Edison	-	-	-	210,117	19	0.9%
Total	\$ 10,837,314		55.8%	\$ 12,551,872		52.4%

* Located at separate sites.

** Previous rankings before merger

KEY AIR QUALITY AND DEMOGRAPHIC INFORMATION REGARDING THE REGION INCLUDED IN THE SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

The South Coast Air Quality Management District includes all of Orange County and parts of Los Angeles, Riverside and San Bernardino Counties. The section below provides a brief description of each county.

Measuring 4,084 square miles, *Los Angeles County* is one of the nation's largest counties. It is the most populated county in the state of California and contains the most populated city in the state, the City of Los Angeles. Before World War II, Los Angeles County was one of the nation's foremost agricultural producers. As agricultural production declined, the economy has evolved into diverse areas that include trade, transportation, and utilities, government, educational and health services, professional and business services, and manufacturing. Tourism and entertainment as well as international trade also play a vital role in the county's economy. The county is home to the twin seaports of Los Angeles and Long Beach, together the nation's largest, as well as the single largest fixed source of air pollution in the region. The two ports are responsible for more smog-forming nitrogen oxide emissions than 6 million cars.

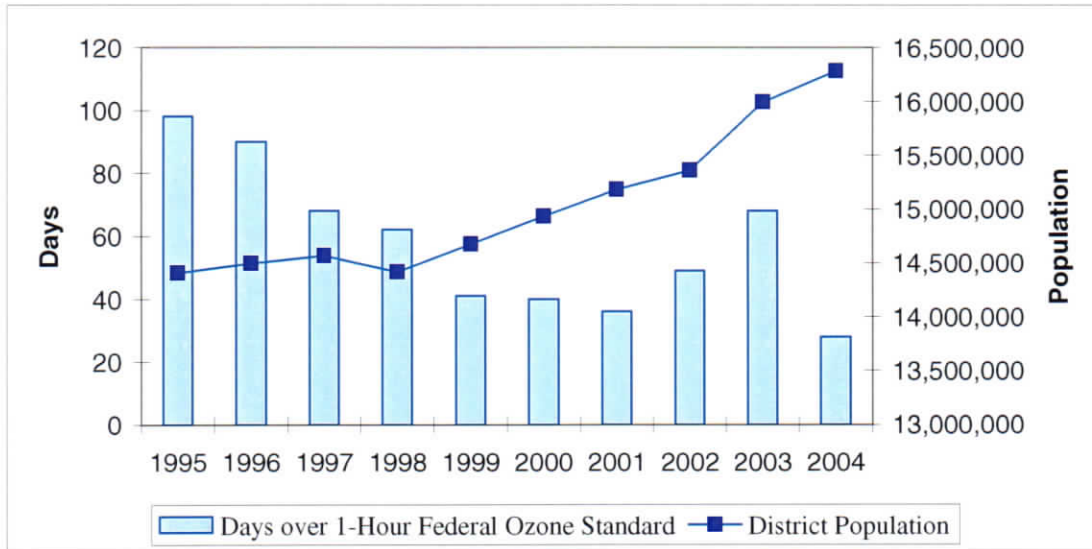
Orange County is the second most populated county in the state and lies south of Los Angeles County. When created in 1889, Orange County was named for its abundance of orange groves and thriving agricultural industry. Today, the largest industry employers are trade, transportation, and utilities, professional and business services, and manufacturing.

The varied topography of *Riverside County* is characterized by fertile river valleys to rolling plains and foothills to deserts below sea level and mountain peaks above 10,000 feet. Recent years have brought dramatic population growth to Riverside County. Between 1980 and 1990, the number of residents grew by over 76% making Riverside the fastest growing county in California. The county's early years were linked to the agriculture industry, but commerce, construction, manufacturing, transportation, and tourism have contributed to the county's substantial growth. The County is also a major distribution center for Southern California and the Pacific Rim.

Roughly 90 percent of *San Bernardino County* is desert and the remaining portion consists of the San Bernardino Valley and San Bernardino Mountains. San Bernardino County and Riverside County are collectively known as the Inland Empire. San Bernardino ranks as the fourth-highest populated county in California and is projected to be home to more than 2.8 million residents by 2020, an increase of 65 percent over current figures. The economy is led by services, government, retail trade, and manufacturing industries. Additionally, the county consistently ranks in the top fifteen agricultural-producing counties in the state.

All four counties within the South Coast Air Quality Management District's jurisdiction have experienced significant population growth in the last few years. The following charts illustrate air pollution, demographic, employment, and motor vehicle information relating to the South Coast Air Quality Management District region.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 12
 South Coast Air Basin Smog Trend
 Last Ten Calendar Years



Year	Days over 1-Hour Federal Ozone Standard	District Population
1995	98	14,410,318
1996	90	14,497,361
1997	68	14,570,394
1998	62	14,418,809
1999	41	14,676,671
2000	40	14,934,529
2001	36	15,184,359
2002	49	15,362,284
2003	68	15,997,078
2004	28	16,284,400

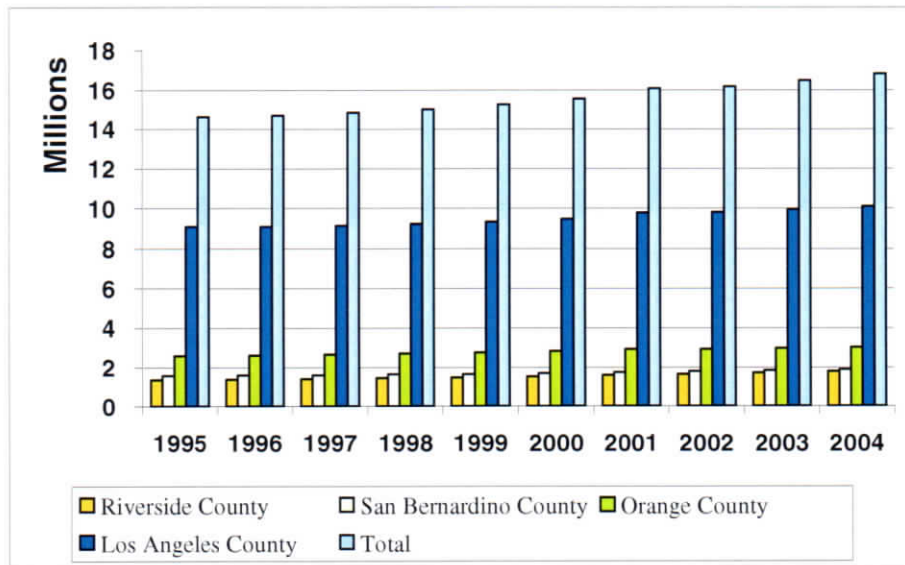
Notes:

- The average number of days in the Basin exceeding the federal standard over the three-year period of 1999-01 decreased by 80% for ozone and by 97% for carbon monoxide from the 1976-78 period.
- The average number of days in the Basin exceeding the federal PM10 standard decreased by 86% between the 1985-87 and 1999-01 periods.
- Favorable weather conditions and continued implementation of the air pollution control strategy contributed to the significant decrease in Days over the 1-Hour Ozone Standard from 2003 to 2004.

Sources:

South Coast Air Quality Management District (www.aqmd.gov); State Subvention Guidance Package

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 13
 Four-County Area Population
 Last Ten Calendar Years



Year	Riverside County	San Bernardino County	Orange County	Los Angeles County	Total	% Increase
1995	1,365,500	1,573,900	2,590,100	9,103,900	14,633,400	0.50%
1996	1,391,800	1,590,800	2,625,300	9,104,700	14,712,600	0.54%
1997	1,420,600	1,613,500	2,672,800	9,147,100	14,854,000	0.96%
1998	1,451,400	1,637,900	2,724,500	9,225,800	15,039,600	1.25%
1999	1,490,500	1,666,600	2,776,100	9,330,100	15,263,300	1.49%
2000	1,533,800	1,701,700	2,829,800	9,487,400	15,552,700	1.90%
2001	1,609,400	1,764,300	2,925,700	9,802,800	16,102,200	3.53%
2002	1,645,300	1,788,500	2,930,500	9,817,400	16,181,700	0.49%
2003	1,719,000	1,842,100	2,975,400	9,966,200	16,502,700	1.98%
2004	1,807,858	1,897,950	3,022,613	10,107,451	16,835,872	2.02%

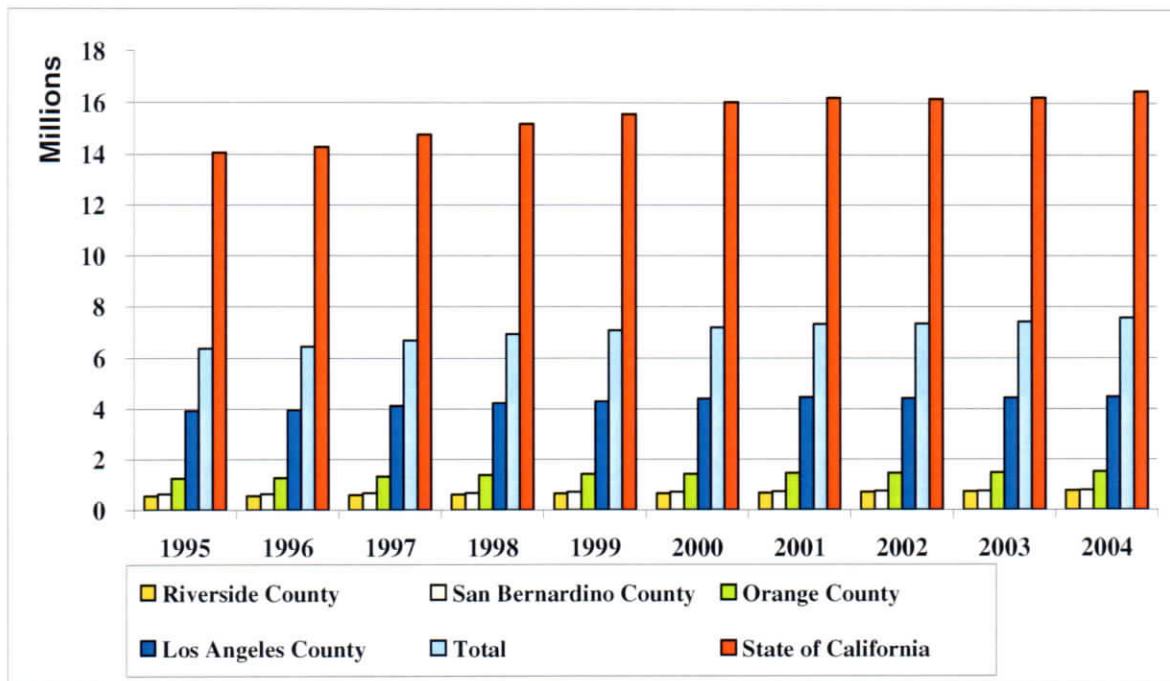
Notes:

- The AQMD encompasses all of Orange County and parts of the Los Angeles, Riverside, and San Bernardino Counties, representing over 16 million residents.

Source:

California Department of Finance - Demographic Research Unit

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 14
 Los Angeles, Orange, Riverside, San Bernardino
 Counties, and State of California Civilian Employment
 Last Ten Calendar Years

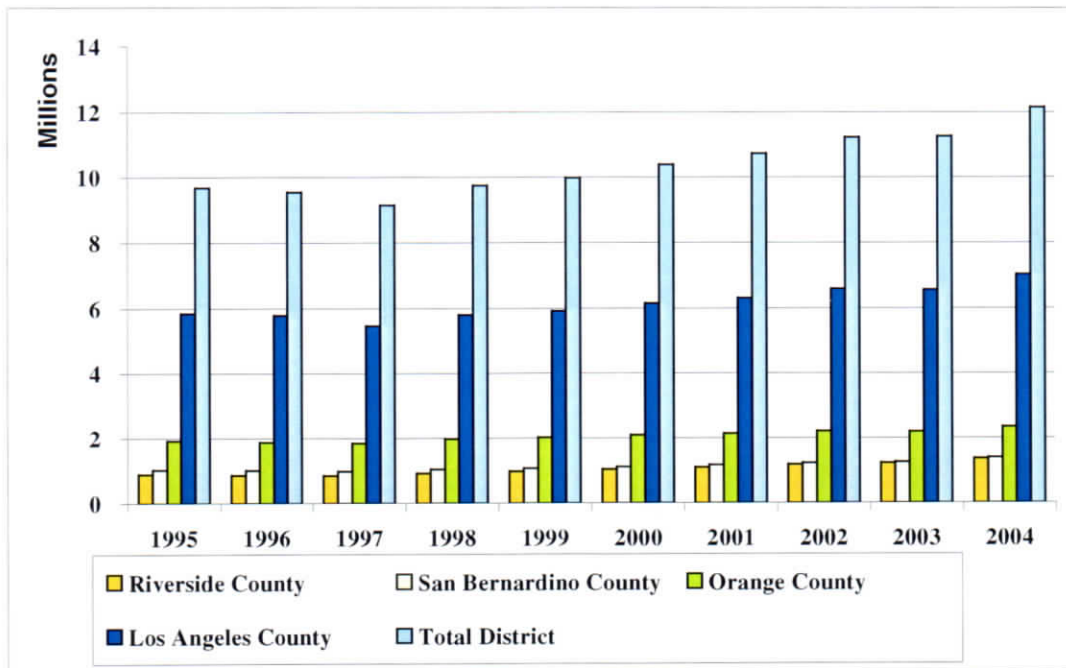


Year	San				Total	State of California
	Riverside County	Bernardino County	Orange County	Los Angeles County		
1995	549,900	622,500	1,254,400	3,938,600	6,365,400	14,062,400
1996	563,100	634,300	1,280,400	3,967,800	6,445,600	14,303,500
1997	589,600	658,600	1,328,200	4,117,000	6,693,400	14,780,800
1998	615,900	680,100	1,385,300	4,246,100	6,927,400	15,203,700
1999	653,600	712,600	1,422,100	4,309,400	7,097,700	15,566,900
2000	644,500	704,200	1,429,500	4,427,800	7,206,000	16,034,100
2001	671,600	724,100	1,452,000	4,483,000	7,330,700	16,217,500
2002	701,400	741,100	1,453,500	4,446,100	7,342,100	16,165,100
2003	731,300	756,500	1,481,700	4,447,800	7,417,300	16,223,500
2004	763,800	790,200	1,518,900	4,494,000	7,566,900	16,459,900

Sources:

- The ten-year trend data included in this chart has been updated to incorporate the most current State of California Employment Development Department statistics.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 15
 Vehicle Registrations (Automobiles & Trucks)
 For Four County Area
 Last Ten Calendar Years



Year	Riverside County	San Bernardino	Orange County	Los Angeles County	Total District
1995	891,894	1,020,972	1,917,597	5,853,340	9,683,803
1996	873,251	1,007,310	1,874,855	5,791,836	9,547,252
1997	854,963	971,743	1,850,067	5,474,649	9,151,422
1998	928,902	1,040,583	1,983,612	5,796,505	9,749,602
1999	972,920	1,070,746	2,019,066	5,926,920	9,989,652
2000	1,038,067	1,118,158	2,091,397	6,155,565	10,403,187
2001	1,100,221	1,168,442	2,140,909	6,323,102	10,732,674
2002	1,182,492	1,238,451	2,207,172	6,595,178	11,223,293
2003	1,221,720	1,266,233	2,196,060	6,578,648	11,262,661
2004	1,365,087	1,391,982	2,346,741	7,044,975	12,148,785

Notes:

- The AQMD encompasses all of Orange County, and parts of Los Angeles, Riverside, and San Bernardino Counties. Paid vehicle registrations within the AQMD jurisdiction is approximately 11.9 million for 2004.

Source:

California Department of Motor Vehicles - Estimated Fee Paid Vehicle Registrations by County

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 16
 Full-time Equivalent AQMD Employees by Function/Program
 Last Ten Fiscal Years

FUNCTION:	Full-Time Equivalent Employees as of June 30									
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Executive Office	5	5	5	9	8	15	9	8	11	11
Clerk of the Boards	6	6	6	6	6	6	6	5	6	6
District Counsel	15	13	13	12	12	11	10	11	10	10
District Prosecutor	22	16	17	18	16	14	22	23	23	22
Finance	39	37	38	43	43	43	45	46	44	45
Administrative & Human Resources	52	48	46	33	34	33	37	37	34	34
Information Management	43	42	44	43	47	46	46	48	47	45
Planning, Rule Development & Area Sources	94	87	87	131	104	93	99	116	116	110
Public Affairs	37	45	42	41	64	59	52	42	36	34
Science & Technology Advancement	126	119	115	118	121	130	142	141	136	132
Engineering & Compliance	<u>312</u>	<u>309</u>	<u>303</u>	<u>268</u>	<u>270</u>	<u>279</u>	<u>303</u>	<u>295</u>	<u>289</u>	<u>284</u>
Total	751	727	716	722	725	729	771	772	752	733

Source: Administrative and Human Resources (vacancy and item control reports)

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
Schedule 17
Operating Indicators by Function
Last Five Fiscal Years

<u>Program Category</u>	<u>2001</u>	<u>2002</u>	<u>Fiscal Year</u> <u>2003</u>	<u>2004</u>	<u>2005</u>
Advance Clean Air Technology					
Contracts awarded	159	287	411	211	263
Total Funding awarded	\$ 33,713,906	\$ 96,287,361	\$ 74,782,923	\$ 36,644,126	\$ 54,723,323
Ensure Compliance with Clean Air Rules					
Inspections	42,386	45,440	50,868	48,898	45,702
Notices of Violations	2,666	2,922	3,558	2,408	2,412
Hearing Board Orders for Abatement	n/a	47	74	58	81
Hearing Board Appeals	n/a	21	12	18	23
Customer Service					
Public Information Requests	9,967	5,615	7,257	5,555	5,477
Community/Public Meetings attended	112	72	84	53	92
Small Business Assistance Contacts	n/a	n/a	1,826	3,979	3,641
Develop Programs to Achieve Clean Air					
Transportation Plans processed	1,460	1,360	1,323	1,316	1,402
Emission Inventory Updates	272	642	289	126	359
Develop Rules to Achieve Clean Air					
Rules Developed	61	32	29	38	59
Monitoring Air Quality					
Samples Analyzed by the Laboratory	16,096	22,730	24,186	26,618	34,174
Source Testing Analyses/Evaluations/Reviews	533	484	649	752	706
Timely Review of Permits					
Applications Processed	11,975	17,844	10,925	10,406	11,459
Applications Received	10,970	11,086	10,138	10,431	10,996
Policy Support					
News releases	62	38	28	41	34
Media Calls	1,250	1,300	1,350	1,300	1,400

South Coast Air Quality Management District

Demographic and Miscellaneous Statistics

<u>Established:</u>	February 1, 1977
<u>Area Covered:</u>	10,743 Square Miles
<u>Counties Included in District:</u>	All of Orange County and parts of Los Angeles, Riverside, and San Bernardino Counties
<u>Population:</u>	16,284,400 (In 2004)
<u>Transportation:</u>	Two transcontinental railroads – Burlington Northern Santa Fe and the Union Pacific Six Commercial Airports – Los Angeles International, Burbank, Long Beach, Ontario International, Orange County, and Palm Springs Freeways – Three major interstate freeways including four bypass routes, U.S. 101, and nine State freeway routes Two major adjoining ports – Port of Long Beach and Port of Los Angeles
<u>Visitor Destinations:</u>	Disneyland, Knott's Berry Farm, Magic Mountain, motion picture and television studios and the Rose Bowl
<u>Number of Registered Vehicles:</u>	11,874,463 (In 2004)
<u>Average Daily Miles Traveled Per Vehicle:</u>	32
<u>Examples of Stationary Sources of Air Pollution Regulated:</u>	Oil Refineries, power plants, paint spray booths, incinerators, manufacturing facilities, dry cleaners, and service stations
<u>Number of Sources:</u>	Over 27,000 operating locations with approximately 78,000 permits.
<u>Number of Air Monitoring Stations:</u>	34
<u>SCAQMD Full-time Authorized Positions:</u>	799
<u>Adopted FY 2005-06 Budget:</u>	\$105,110,807
<u>Key Federal, State, and Local Air Agencies:</u>	EPA Region IX (Environmental Protection Agency), CARB (California Air Resources Board), CAPCOA (California Air Pollution Control Officer's Association), STAPPA (State and Territorial Air Pollution Program Administrators), ALAPCO (Association of Local Air Pollution Control Officials). There are 35 local air pollution control districts in California.

Key Historical Dates in Southland Smog Control

- **1945** City of Los Angeles establishes Bureau of Smoke Control.
- **1947** Governor Earl Warren signs AB 1, allowing county air pollution control districts (APCD). L.A. County establishes APCD requiring permits for all major industries.
- **1950** Orange County APCD established.
- **1955** Highest ozone level ever recorded in Southland - .68 parts per million.
- **1955** Los Angeles APCD launches Smog Emergency Warning System.
- **1956** Los Angeles establishes first air quality monitoring network of 15 stations.
- **1957** San Bernardino and Riverside County APCDs formed.
- **1963** First Federal Clean Air Act enacted.
- **1967** California Air Resources Board (CARB) created. Federal Air Quality Act allows California to set and enforce more stringent auto standards than the rest of the nation.
- **1969** First state ambient air quality standards enacted.
- **1970** U.S. Environmental Protection Agency created. In 1970 the Federal Clean Air Act becomes a cornerstone of modern air pollution control.
- **1977 South Coast Air Quality Management District formed through merger of Los Angeles, Orange, Riverside, and San Bernardino APCDs.**
- **1984** California's Smog Check program takes effect.
- **1987** AQMD establishes ridesharing requirements for region's employers.
- **1988** California Clean Air Act adopted. Last Stage 2 episode recorded.
- **1989** AQMD adopts first Air Quality Management Plan (AQMP) to show attainment of clean air standards.
- **1990** Federal Clean Air Act Amendments require new programs for smog, toxics and protection of the Earth's ozone layer.
- **1993** RECLAIM (REgional CLean Air Incentives Market) emissions trading program adopted.
- **1997** AQMD adopts Environmental Justice Initiatives.
- **1998** Multiple Air Toxics Exposure Study, largest of its kind in the nation, launched.
- **2000** AQMD adopts Air Toxics Control Plan and first series of Clean Fleet Rules.
- **2001** AQMD implements the State's Lower Emission School Bus Program.
- **2002** AQMD adopts phase-out of toxic chemical at dry cleaners.
- **2005** The Southland achieves federal carbon monoxide standards.



**South Coast
Air Quality Management District**

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