

South Coast Air Quality Management District

Diamond Bar, California



Comprehensive Annual Financial Report

Year Ended June 30, 2003





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, 2003

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Comprehensive Annual Financial Report
Year Ended June 30, 2003

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SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

GOVERNING BOARD

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

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

FRED AGUIAR
County of San Bernardino Representative

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

MICHAEL D. ANTONOVICH
County of Los Angeles Representative

RONALD O. LOVERIDGE
County of Riverside
Cities Representative

HAL BERNSON
County of Los Angeles
Cities Representative
Western Region

LEONARD PAULITZ
County of San Bernardino
Cities Representative

JANE CARNEY
Senate Rules Committee Appointee

JAMES W. SILVA
County of Orange Representative

WILLIAM S. CRAYCRAFT
County of Orange
Cities Representative

CYNTHIA VERDUGO-PERALTA
Governor's Appointee

BARRY R. WALLERSTEIN, D.Env.
Executive Officer



South Coast Air Quality Management District

21865 Copley Drive, Diamond Bar, CA 91765-4182

(909) 396-2000 • <http://www.aqmd.gov>

November 7, 2003

Governing Board
South Coast Air Quality Management District

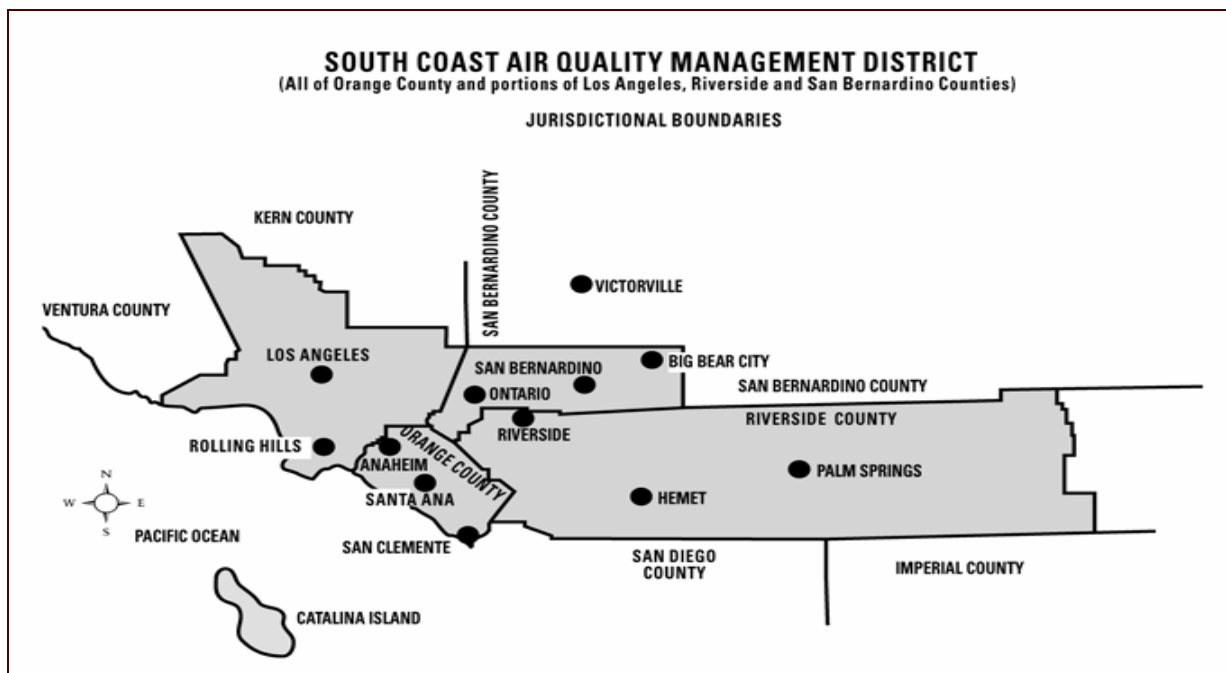
This is the second Comprehensive Annual Financial Report (CAFR) of the South Coast Air Quality Management District (AQMD) using the reporting requirements as prescribed by the Governmental Accounting Standards Board (GASB) Statement 34. This report is for the fiscal year ended June 30, 2003 and was prepared by the AQMD's Finance Office. Responsibility for the accuracy of the data, the completeness and fairness of the presentation, including all disclosures, rests with the AQMD. To the best of our knowledge and belief, the enclosed data is accurate in all material respects, reported in a manner designed to present fairly the financial position and results of operations of the various funds and all disclosures necessary to enable the reader to gain an understanding of the AQMD's financial activities.

This report is divided into three major sections: the Introductory Section, Financial Section and Statistical Section. The Introductory Section includes the AQMD's organizational structure and list of principal officials as well as this Letter of Transmittal which provides general comments on activities of interest to the reader. The Financial Section is comprised of the Audit Opinion, Management's Discussion and Analysis, the Basic Financial Statements which include the notes to the basic financial statements, budgetary comparison schedule for the General Fund, and combining and individual fund statements for the other funds. The Statistical Section provides important historical and trend information about the AQMD.

ABOUT 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.



The AQMD 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. In 2002, the federal air quality standards were exceeded on 49 days for federal ozone and one day for carbon monoxide. The annual average fine particulate matter (≤ 10 microns) (PM_{10}) federal standard was exceeded in Riverside County. Preliminary data for 2003 indicates the worst smog levels in the last six years.

Despite these high levels, the air quality in the South Coast Air Basin has improved dramatically since the late 1970s. The mean number of days in the Basin exceeding the federal standard over the three-year averaging period of 2000-2002 decreased by 79% for ozone and by 96% for carbon monoxide from the 1976-1978 period. The average number of days in the Basin exceeding the federal PM_{10} standard, for which sampling was initiated in late 1984, decreased by 93% between the 1985-1987 and 2000-2002 periods. There have been no days on which the federal nitrogen dioxide standard has been exceeded since 1991 and the more stringent state

standard was not exceeded in 2001. While economic and meteorological factors have contributed to this trend, most of the air quality improvements can be attributed to control strategies implemented by the AQMD and the state. The AQMD's regulatory program, in conjunction with state and federal programs, is expected to decrease pollutant levels to meet the federal air quality standards by the year 2010, in spite of population growth in the Basin.

REPORTING ENTITY

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.

ECONOMIC CONDITIONS

The AQMD is a fee-supported agency and does not receive sales or property tax support. Approximately 65% of its funding is derived from fees paid by stationary sources that emit air pollution; 16% 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 new federal and state mandates and increased workload complexity, the AQMD has successfully streamlined many of its operations, reducing the cost of its programs. Compared to 1992-93 fiscal year, 2002-03 expenditures reflect staffing and expenditure levels that are 30% (344 FTEs) and 8% (\$8.3 million) below 1992-93 levels. When adjusted for inflation, this year's expenditures are 33% less than the 1992-93 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 few significant penalty settlements, higher annual operating fee renewals and completion of several federal grant objectives. While the AQMD does not recover its activity costs fully from fees, support in the form of a state subvention and federal grants, and general revenues offset the shortfall. Beginning in FY 2001-02, the AQMD implemented several permit fee adjustments to more closely recover its program costs. Due to the state's current and projected budget deficit, one third of its support to local air districts (\$2.1 million for the AQMD) was cut in FY 2002-03, with future cuts possible.

For fiscal year 2003-04, the employer contribution rates to our pension systems have increased substantially (more than doubled) due primarily to two years of negative investment returns in pension system portfolios and changes to the actuarial assumptions reflecting AQMD's aging workforce. Because AQMD fee rate increases are capped at the annual change in the California Consumer Price Index (CPI), the increases in retirement cost (and loss in state funding) have been offset in 2003-04 through staffing, contract and equipment expenditure reductions and the use of approximately \$6 million from the unreserved fund balance. Over the next three years the AQMD plans to use a portion of its unreserved fund balance to offset projected revenue shortfalls, as it reduces program costs bringing the budget into balance with revenues.

OUTLOOK FOR THE FUTURE

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; update its plan for achieving federal air quality standards; continue to implement its Environmental Justice Initiatives and Strategic Alliance Initiatives and pursue its legislative goals.

Air Quality Management Plan

Following several advisory group meetings and public workshops, AQMD released its draft 2003 Air Quality Management Plan in February 2003. The draft outlines the agency's strategy for achieving the federal ozone and PM₁₀ standards by 2010 and 2006 respectively, and maintenance of the carbon monoxide standard. The plan highlights the need for additional emission reductions, particularly in the mobile source sector which includes everything from cars and trucks to trains and planes.

New Ozone Standard

Meeting current clean air standards will require the commercialization of advanced technologies and adoption of pollution control measures by other air quality agencies. AQMD will face an even greater challenge to meet the U.S. Environmental Protection Agency's (EPA) new and more stringent ozone and particulate matter standards.

Special Initiatives

In January 2003, the Governing Board adopted three major new initiatives to:

- ◆ Develop a clean school bus program to replace diesel-powered buses with low-emission models;
- ◆ Create an Asthma and Outdoor Air Quality Consortium, composed of researchers from major universities in Southern California;
- ◆ Initiate a Brain Tumor and Air Pollution Foundation to research the overall relationship between air pollution and brain cancer.

AQMD also will continue work next year on 23 enhancements to AQMD's Environmental Justice Initiatives. Enhancements accomplished in 2002-03 include a searchable database on air pollution violations on AQMD's website; the Enhanced Environmental Justice Work Plan for FY 2002-03, which was approved by the Governing Board; and an enforceable agreement with the Valero refinery in Wilmington to phase out concentrated hydrogen fluoride, a highly toxic chemical.

Legislative Agenda

Next year, AQMD will pursue several legislative goals in Sacramento, including the stabilization of state funding to local air districts and the possible expansion of AQMD's regulatory authority to include the retrofitting of on-and-off-road diesel engines.

FINANCIAL CONTROLS

Annual and Independent Audit

It is the policy of the AQMD to have an annual audit performed by an independent certified public accounting firm appointed by the AQMD Board. The independent audit of the AQMD's financial statements for fiscal year ended June 30, 2003, was conducted by Simpson and Simpson, Certified Public Accountants. The Board selects, through a competitive process, new auditors every three years. The auditor's unqualified opinion on the basic financial statements is included in the Financial Section of this report.

As part of the AQMD's annual audit engagement, the auditors review the AQMD's internal control structure, as well as compliance with applicable laws and regulations. The results of the AQMD's annual audit for fiscal year ended June 30, 2003, provided no instances of material weaknesses in connection with the internal control structure or significant violations of applicable laws and regulations.

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

Internal Accounting Controls

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

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

Budgetary Controls

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'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 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.

OTHER INFORMATION

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, 2003 is \$264,623,099.

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 are 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 \$119,000,000. Difference in conditions coverages (earthquake and flood) have limits of \$25,000,000.

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 coverages over self-insured retentions for individual workers' compensation claims in excess of \$500,000, 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.

Awards

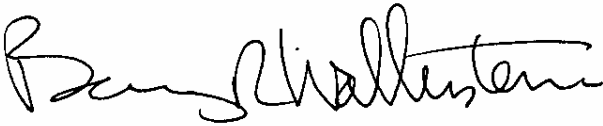
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the South Coast Air Quality Management District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. 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.

Acknowledgments

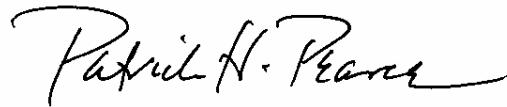
The preparation of our comprehensive annual financial report was made possible by the dedicated services of the accounting, financial analyst and management staff of the Finance Office. These members have our sincere appreciation for the contribution made in the preparation of this report.

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 a sensitivity to the impacts of its actions on the community and businesses.

Respectfully submitted,



Barry R. Wallerstein, D.Env.
Executive Officer



Patrick H. Pearce
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, 2002

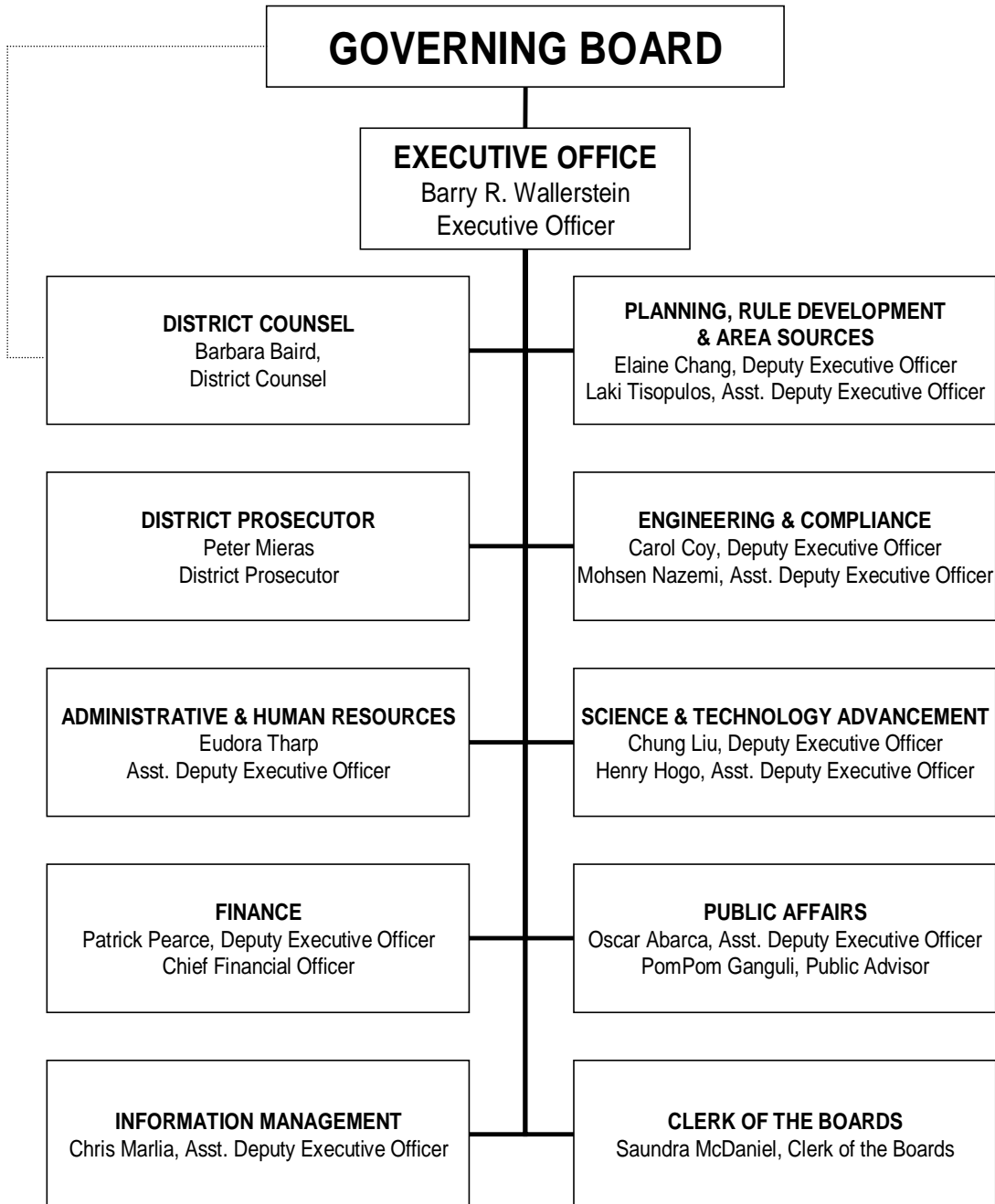
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

South Coast Air Quality Management District



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, 2003, 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, 2003, 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 7, 2003 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 18 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.



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Simpson & Simpson

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.

Simpson & Simpson

Los Angeles, California
November 7, 2003

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003

Our discussion and analysis of the AQMD's financial performance provides an overview of the AQMD's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the transmittal letter and the basic financial statements.

A. Financial Highlights

- The assets of the AQMD exceeded its liabilities at the close of the most recent fiscal year by \$211.5 million (*net assets*). Of this amount, \$6 million (*unrestricted net assets*) may be used to finance the AQMD's day-to-day operations without constraints established by legal requirements.
- The AQMD's total net assets decreased by \$8.8 million primarily due to the decrease in program revenues and reduced spending on capital assets.
- As of the close of the fiscal year, the AQMD's governmental funds reported combined ending fund balances of \$245.8 million, a decrease of \$10.2 million in comparison to the prior year.
- Of the \$245.8 million combined ending fund balances, \$44.8 million represents the fund balance of the General Fund.
- Out of the total General Fund balance of \$44.8 million at the end of the fiscal year, \$37.2 million represents the unreserved fund balance of which \$10.9 million represents designated uses. The remaining undesignated balance of \$26.3 million represents 27.0% of General Fund revenues.
- The AQMD's long term debt decreased by \$5.8 million during the current fiscal year. The decrease is the result of the normal amortization of debt.

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. The AQMD's report also includes required and other supplementary information 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 the resources of 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 on a full accrual basis. The difference between the two is reported as *net assets*. This difference is comparable to the total stockholders' equity presented by a commercial enterprise. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the AQMD is improving or deteriorating.

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

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

The AQMD's government-wide financial statements are presented on pages 19 to 20.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the AQMD rather than the AQMD as a whole. The AQMD's fund financial statements are divided into three broad categories:

- a) governmental funds
- b) proprietary funds
- c) fiduciary funds

Governmental Funds

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 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 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 22.

The reconciliation of the total change in fund balances for all governmental funds to the change in net assets can be found on page 24.

The AQMD maintains 20 individual special revenue funds in addition to the general fund. Seven 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 13 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.

Proprietary Funds

When the AQMD charges customers for the goods it provides – whether to outside customers or within the AQMD – they 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 25 to 27.

Fiduciary Funds

Assets held by the AQMD for other parties and that cannot be used to finance the AQMD's operations are reported in the fiduciary funds. The AQMD is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The fund financial statements consist of a Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets.

The AQMD's fiduciary fund financial statements are presented on pages 28 and 29.

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 30 to 51 of this report.

Required and Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the General Fund's budgetary comparison schedule and budgetary reconciliation. Individual fund data for each of the non-major governmental funds is included in the Other Supplementary Information section.

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, 2003 compared with the prior fiscal year.

	Net Assets					
	(In Thousands)					
	Governmental Activities		Business-type Activities		TOTAL	
	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2001-02</u>
Current and Other Assets	\$ 279,890	\$ 287,406	\$ 56	\$41	\$ 279,946	\$ 287,447
Capital Assets	<u>61,582</u>	<u>66,819</u>	<u>565</u>	<u>-</u>	<u>62,147</u>	<u>66,819</u>
Total Assets	<u>\$ 341,472</u>	<u>\$ 354,225</u>	<u>\$621</u>	<u>\$41</u>	<u>\$ 342,093</u>	<u>\$ 354,266</u>
Long-term Liabilities Outstanding	\$ 95,782	\$101,591	\$ -	\$ -	\$ 95,782	\$ 101,591
Other Liabilities	<u>34,773</u>	<u>32,304</u>	<u>9</u>	<u>-</u>	<u>34,782</u>	<u>32,304</u>
Total Liabilities	<u>\$130,555</u>	<u>\$133,895</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$130,564</u>	<u>\$ 133,895</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$ 4,008	\$ 4,829	\$565	\$ -	\$ 4,573	\$ 4,829
Restricted	201,001	211,924	-	-	201,001	211,924
Unrestricted	<u>5,908</u>	<u>3,577</u>	<u>47</u>	<u>41</u>	<u>5,955</u>	<u>3,618</u>
Total Net Assets	<u>\$210,917</u>	<u>\$220,330</u>	<u>\$612</u>	<u>\$41</u>	<u>\$211,529</u>	<u>\$220,371</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 \$210.9 million.

The largest portion of the AQMD's net assets (95.0%) is restricted. The specific revenue sources in special revenue funds are restricted to expenditures for specific purposes. Two percent of the AQMD's net assets reflect 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 (3.0%) is unrestricted and may be used to meet the AQMD's ongoing obligations in carrying out day-to-day operations.

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 AQMD as a whole as well as for its separate governmental and business-type activities. This situation is consistent with the prior fiscal year.

The AQMD's net assets decreases \$9.4 million over the prior fiscal year. Total revenues decreased 19.5% while total expenses increased 7.3% compared with the prior fiscal year. General revenues reflect an overall increase of \$0.3 million while program revenues decreased by \$43.3 million.

The following schedule lists a condensed Changes in Net Assets for the fiscal year ending June 30, 2003 compared with the prior fiscal year.

	Changes in Net Assets					
	(In Thousands)					
	Governmental Activities		Business-type Activities		TOTAL	
	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2001-02</u>
Revenues:						
Program Revenues:						
Fees and Charges - Stationary Sources	\$ 62,836	\$ 65,738	\$ -	\$ -	\$ 62,836	\$ 65,738
Fees and Charges - Mobile Sources	10,245	10,272	-	-	10,245	10,272
Operating Grants and Subventions	7,435	10,434	-	-	7,435	10,434
Restricted Special Revenue Sources	81,194	118,892	-	-	81,194	118,892
Merchandise Sales	-	-	45	1	45	1
General Revenues:						
Grants and Subventions – Not Restricted to Specific Programs	2,966	2,957	-	-	2,966	2,957
Mobile Sources – Not Restricted to Specific Programs	5,621	6,285	-	-	5,621	6,285
Penalties and Settlements	5,795	4,560	-	-	5,795	4,560
Interest	1,548	1,606	-	-	1,548	1,606
Other Revenues	802	1,047	-	-	802	1,047
Total Revenues	<u>\$ 178,442</u>	<u>\$ 221,791</u>	<u>\$ 45</u>	<u>\$ 1</u>	<u>\$ 178,487</u>	<u>\$ 221,792</u>
Expenses:						
Advance Clean Air Technology	\$ 5,910	\$ 4,484	\$ -	\$ -	\$ 5,910	\$ 4,484
Ensure Compliance with Clean Air Rules	33,218	32,781	-	-	33,218	32,781
Customer Service	9,971	9,491	-	-	9,971	9,491
Develop Programs to Achieve Clean Air	6,179	5,618	-	-	6,179	5,618
Develop Rules to Achieve Clean Air	6,522	6,574	-	-	6,522	6,574
Monitoring Air Quality	9,974	9,828	-	-	9,974	9,828
Permit Review	18,809	20,573	-	-	18,809	20,573
Policy Support	2,547	2,226	-	-	2,547	2,226
Special Funds Activities	94,117	82,813	-	-	94,117	82,813
Other Expenses	-	-	82	2	82	2
Total Expenses	<u>\$ 187,247</u>	<u>\$ 174,388</u>	<u>\$ 82</u>	<u>\$ 2</u>	<u>\$ 187,329</u>	<u>\$ 174,390</u>
Increase in Net Assets Before Transfers	\$ (8,805)	\$ 47,403	\$ (37)	\$ (1)	\$ (8,842)	\$ 47,402
Transfers	<u>(608)</u>	<u>(25)</u>	<u>608</u>	<u>25</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets, June 30, 2003	<u>\$ (9,413)</u>	<u>\$ 47,378</u>	<u>\$ 571</u>	<u>\$ 24</u>	<u>\$ (8,842)</u>	<u>\$ 47,402</u>

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 2002-03. 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 functions of the AQMD are predominantly supported by fees, grants, state subvention, penalties, and settlements. The primary governmental activities of the AQMD include the following: 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 which are restricted to programs for specific purposes.

The decrease in program revenues in the Fees and Charges – Stationary Sources category resulted mainly from receiving \$3.5 million less emissions fees revenue and approximately \$2 million less state subvention revenue in FY 2002-03.

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 2001-02 to FY 2002-03:

As a result of the Regional Clean Air Incentives Market (RECLAIM) Mitigation and Executive Order, substantial payments were made during FY 2001-02, allowing RECLAIM power generating facilities that exceeded their emissions cap as a result of the energy crisis to pay a per-pound emissions mitigation fee. The energy crisis subsided and these large payments to the Air Quality Investment Fund, which totaled approximately \$16 million, were not repeated in FY 2002-03.

Prior to FY 2002-03, each fiscal year the California Air Resources Board (CARB) subvended each year's Carl Moyer grant money to AQMD when the grant was awarded. In March 2002 Proposition 40 was adopted, requiring more stringent state fiscal oversight. As a result, CARB now subvenes only approximately 10% of each Carl Moyer grant at the time the grant is awarded, and then will subvene the remainder of the grant in 10% reimbursement increments after AQMD spends the grant money. In FY 2002-03 only the approximate 10% up-front part of the grant was received. As a result the grant revenue recognized declined by \$7.2 million in FY 2002-03.

In FY 2001-02 the SCAQMD received \$7.8 from CARB to replace or retrofit diesel school buses. In FY 2002-03 no additional funds were received from CARB for this purpose.

In FY 2001-02 the SCAQMD received a grant of approximately \$24 million to mitigate excess peaker power plant emissions during the energy crisis. The energy crisis subsided and no additional grant funds were received in FY 2002-03 for this purpose.

In response to the energy crisis, to bring additional megawatts online by July 2004 electrical generating facilities were required to offset their increased emissions from the additional megawatts by paying a mitigation fee. In FY 2001-02 the facilities paid \$2.3 million in mitigation fees. In FY 2002-03 the amount paid was \$13 million.

The SCAQMD received \$5.6 million from CARB to mitigate emissions from backup diesel generators or other sources with the same or similar emissions.

Business-Type Activities

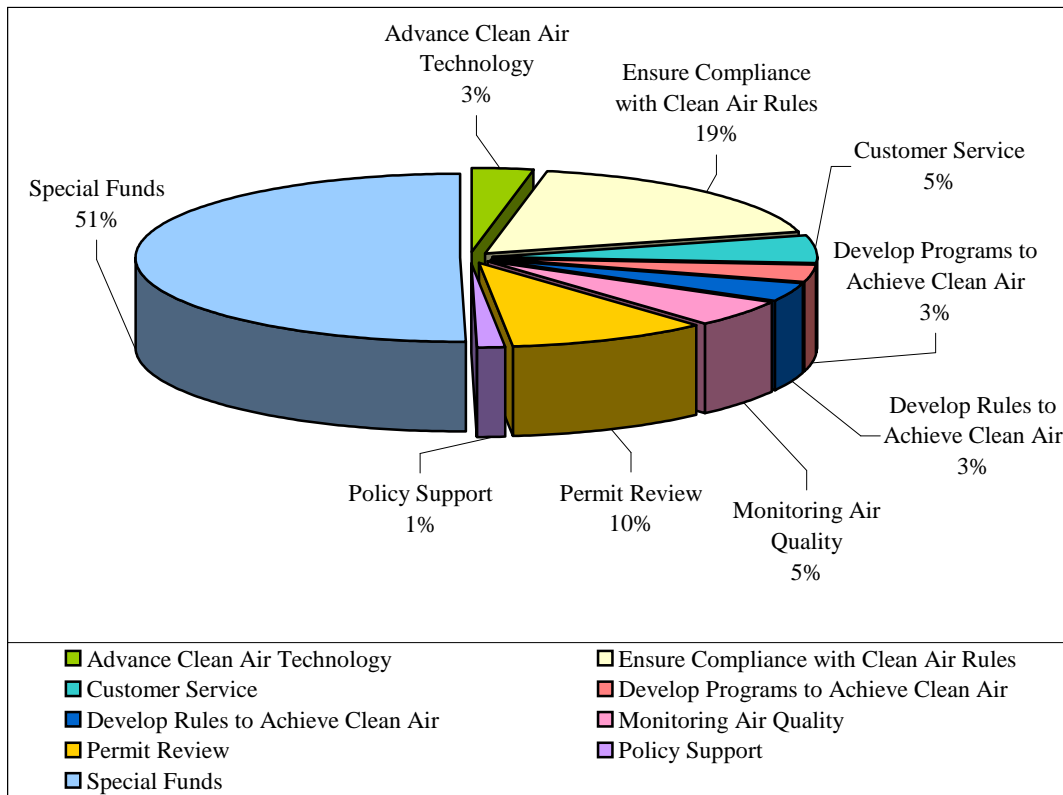
The business-type activities section reports transactions relating to the Clean Air Store and the Compressed Natural Gas (CNG) fueling station. The Clean Air Store and the CNG Fueling Station expenditures are reported on a cash basis and are offset by merchandise sales. The amount of \$608,476 represents the construction cost of the Compressed Natural Gas (CNG) fueling station at the AQMD's headquarters.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

EXPENSES BY ACTIVITY

Governmental Activities

FY 2002-03



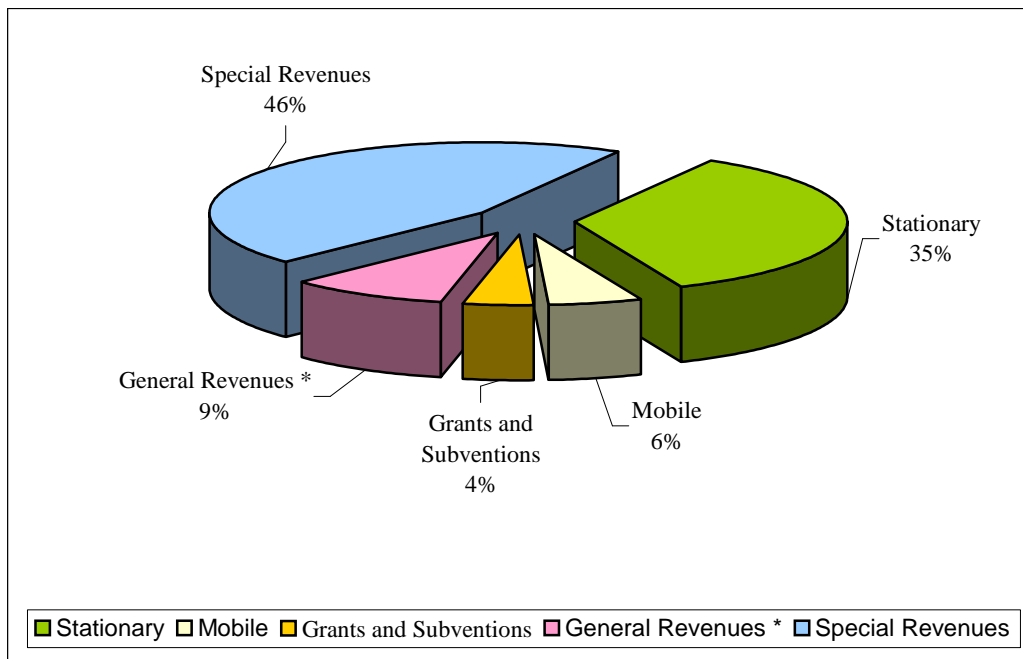
Activity	FY 02-03	FY 01-02
Advance Clean Air Technology	\$5,910,075	\$4,484,278
Ensure Compliance with Clean Air Rules	33,217,922	32,780,500
Customer Service	9,971,153	9,491,294
Develop Programs to Achieve Clean Air	6,178,611	5,618,177
Develop Rules to Achieve Clean Air	6,522,360	6,574,206
Monitoring Air Quality	9,973,509	9,827,518
Permit Review	18,809,101	20,572,771
Policy Support	2,547,327	2,226,376
Special Funds	94,117,397	82,812,501
Total	\$187,247,455	\$174,387,621

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

REVENUES BY MAJOR SOURCE

Governmental Activities

FY 2002-03



Source	FY 02-03	FY 01-02
Stationary	\$62,835,710	\$65,737,827
Mobile	10,245,290	10,272,434
Grants and Subventions	7,434,924	10,434,312
General Revenues *	16,732,092	16,429,959
Special Revenues	81,194,075	118,891,866
Total	\$178,442,091	\$221,766,398

* Includes Mobile Sources and Grants and Subvention dollars that are not restricted to specific programs.

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)

FY 2002-2003

	<u>Total Cost of Work Program Activities</u>	<u>Net Cost of Work Program Activities</u>
Advance Clean Air Technology	\$ 5,910	\$ (77)
Ensure Compliance with Clean Air Rules	33,218	(402)
Customer Service	9,971	(2,852)
Develop Programs to Achieve Clean Air	6,179	(1,583)
Develop Rules to Achieve Clean Air	6,522	(2,169)
Monitoring Air Quality	9,974	(2,769)
Permit Review	18,809	(2,019)
Policy Support	2,547	(743)
Special Funds Activities	<u>94,117</u>	<u>(12,923)</u>
Total	<u>\$187,247</u>	<u>\$(25,537)</u>

In Fiscal Year 2002-03 expenditures in each work program activity and overall special fund activities exceeded revenues received. Special fund activities generate funding for long-term projects that reduce emissions in the South Coast Air Basin. Funding for special fund activities are recognized when received and projects carried out may extend over multiple fiscal years.

These work 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** – Ensure compliance with AQMD rules for existing major and small stationary sources of all pollutants.
- **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 throughout the South Coast Basin 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.

D. Financial Analysis of the AQMD's Funds

Governmental Funds

As of the end of the fiscal year, the AQMD's governmental funds reported combined ending fund balances of \$245.8 million, a decrease of \$10.2 million in comparison with the prior year. Approximately 82.0% of these fund balances (\$201.1 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 amounted to \$44.8 million. The unreserved fund balance was \$37.2 million; Designations amount to \$10.9 million or 29.0%. 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 39. One measure of the General Fund's liquidity is the comparison of both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance (designated and undesignated combined) represents 39.0% of total General Fund expenditures, while total fund balance represents 47.0% of the total General Fund expenditures. Unreserved General 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 recover the cost of the AQMD programs, fee rates in FY 2002-03 were increased by 2.5% consistent with the change in the California Consumer Price Index (CPI). In addition, an appropriation from the subvention reserve was required to offset a reduction in state funding. To mitigate a projected shortfall in emission fee revenue the filling of vacant staff positions and the purchase of capital equipment and professional services were deferred to generate expenditure savings. On a budgetary basis, general fund revenues exceeded expenditures by \$3.7 million due to greater than expected receipts of penalties and settlements, and annual operating fees.

Proprietary Funds

As noted earlier, the AQMD's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

E. General Fund Budgetary Highlights

The FY 2002-03 adopted budget compared to the amended budget reflects an increase in appropriations of \$4,566,000. The changes to the budget were the result of additional funding received after the budget was adopted. Also, changes can be attributed to transfers from other funds and the use of undesignated fund balance for program needs that were unknown at the time the budget was developed.

Additional funding was received and appropriated in Fiscal Year 2002-03 from the following agencies:

EPA - \$2,446,000 for the Photochemical Assessment Monitoring Stations (PAMS) Program, the Port of Long Beach Project, and the PM2.5 monitoring program.

Ford Motor Company - \$124,000 for the purchase of two CNG-powered buses as part of a development and demonstration project to highlight available technology at various outreach events, including conferences and meetings.

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

Clean Fuels Fund - \$553,000 was allocated for various Clean Fuels Program activities such as the purchase of advanced technology vehicles for the Alternative Fuel Vehicle Loan Program, the development of alternative vehicle and fuel infrastructure projects, 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.

Air Quality Investment Fund - \$150,000 for outreach and administrative expenses of the Mow Down Air Pollution Program 2003 which exchanges gas powered lawn mowers with electric mowers.

Designation for Enhanced Port Compliance and Power Plant Emissions Mitigation - \$134,000 for the establishment of a five-year inspector enhancement program for the Marine Vessel Credit Generation Rule and Port Area Air Quality Program enforcement.

Designation for Litigation and Enforcement - \$275,000 was allocated for outside counsel to represent and advise both AQMD and AQMD Hearing Board on legal matters related to environmental law.

Designation for Enhanced Compliance - \$44,000 was allocated for the development of portable monitors for air contaminants.

The remaining \$715,000 increase can be attributed to transfers from the undesignated fund balance for the development of low VOC (Volatile Organic Compound) cleaning solvents for lithographic printing ink application equipment and various community outreach programs.

For FY 2002-03, a comparison of actual revenues and expenditures to the final budget identified a revenue shortfall of 5.2% and expenditure savings of 9.9%. During the fiscal year, the AQMD was notified that its retirement rates would be doubling in FY 2003-04, the result of losses in the investment portfolio and changes in the actuarial assumptions, and that the rates were projected to increase by an additional 20% per year for the following two fiscal years. Also, the AQMD was projecting a decline in FY 2002-03 emission fees as a result of reduced power generation in the basin. In response to the anticipated increases in retirement costs and projected decreases in emissions fees revenues, the Executive Officer directed management to defer all but critical expenditures to maximize savings.

F. Capital Assets and Debt Administration

Capital Assets

The AQMD's investment in capital assets is mainly for its governmental activities. The book value was \$61.6 million (net of accumulated depreciation of \$42.2 million) as of June 30, 2003. This investment in capital assets includes land, buildings, equipment for laboratory, air monitoring stations, computer and office, and AQMD vehicles which are mostly alternative-fuel vehicles.

The decrease in capital assets primarily reflects a slow down in spending during the second half of the year and the retirement of various equipment including the aging AQMD vehicle fleet. These vehicles are being used by AQMD inspectors and AQMD employee carpools.

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

Long-Term Debt

At the end of the current fiscal year, the AQMD had a total long-term debt outstanding of \$95.8 million including the current portion of \$6.7 million. Of this amount, \$57.6 million represents the Installment Sale Revenue Bonds issued by the AQMD Building Corporation (Corporation) whereby the AQMD is required to make debt service payments. This is in

accordance with the Installment Purchase Agreement between the Corporation and the AQMD. Additional information on the Installment Sale Revenue Bonds can be found in the "Notes to Basic Financial Statements." The amount of \$26.9 million represents the Pension Obligation Bonds which were issued in December 1995 jointly with the County of San Bernardino to retire the Unfunded Actuarial Accrued Liability (UAAL) due to San Bernardino County Employees Retirement Association. Other long-term debt includes general claims and workers' compensation claims payable of \$0.7 million and compensated absences of \$10.6 million.

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

The FY 2003-04 expenditure budget decreases by 2.0% over the FY 2002-03 amended budget. A significant portion of this decrease reflects the 33.0% statewide reduction (\$2.1 million for the AQMD) in state subvention funding and an estimated reduction in emissions fees revenues reflecting lower emissions as a result of additional emission controls placed on the Basin's largest emitters. To mitigate this reduction in state support and reduced emissions fees revenues, 22 positions were deleted, offsetting a majority of the positions that were added two years ago (with the new subvention dollars) to enhance the AQMD's compliance activities. In addition, expenditures for services, supplies and equipment were cut by \$6.7 million.

Moreover, since FY 1991-92, the AQMD has reduced staffing and program costs despite increased program requirements. The FY 2003-04 expenditures budget is \$101.6 million and includes funding for 798 authorized positions. Compared to FY 1991-92, this reflects 31.0% less staffing and a 11.0% reduction in budgeted expenditures. Adjusting today's dollar for inflation, the FY 2003-04 budget is 37.0% 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. Therefore, the FY 2003-04 Budget adopted an across-the-board fee increase of 3.0% consistent with the change in the California Consumer Price Index plus an appropriation from the undesignated fund balance.

While the budget for FY 2003-04 represents a decrease from the FY 2002-03 amended budget, it represents an approximate 2.5% increase over last year's originally adopted budget. This increase reflects a portion of the cost to cover increases associated with our labor agreements, increased retirement contributions and the addition of one position in the District Prosecutor's office to handle increased enforcement work associated with Notices of Violation and litigation. Estimated revenues for FY 2003-04 are \$95.5 million, which with the addition of \$6.1 million from 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 Chief Financial Officer, 21865 Copley Drive, Diamond Bar, CA 91765-4182.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS
June 30, 2003**

	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	SCAQMD Building Corporation
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 252,525,799	\$ 44,573	\$ 252,570,372	\$ 1,214,604
Investments	10,003,125	-	10,003,125	-
Interest receivable	938,786	-	938,786	678,260
Due from other governmental agencies	14,142,999	-	14,142,999	-
Accounts receivable, net	2,225,878	7,700	2,233,578	-
Inventories	52,964	4,354	57,318	-
Other assets	-	-	-	543,157
Total current assets	279,889,551	56,627	279,946,178	2,436,021
Noncurrent assets:				
Land	9,061,762	-	9,061,762	-
Capital assets, net of accumulated depreciation	52,520,618	565,013	53,085,631	-
Total noncurrent assets	61,582,380	565,013	62,147,393	-
Total assets	341,471,931	621,640	342,093,571	2,436,021
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	20,687,290	9,308	20,696,598	99,588
Interest payable	678,260	-	678,260	678,260
Salaries and benefits payable	4,088,809	-	4,088,809	-
Deferred revenue	9,318,560	-	9,318,560	-
Total current liabilities	34,772,919	9,308	34,782,227	777,848
Noncurrent liabilities:				
Due within one year	6,703,591	-	6,703,591	-
Due in more than one year	89,078,858	-	89,078,858	-
Total noncurrent liabilities	95,782,449	-	95,782,449	-
Total liabilities	130,555,368	9,308	130,564,676	777,848
<u>Net assets</u>				
Invested in capital assets, net of related debt	4,007,380	565,013	4,572,393	-
Restricted for special projects/ programs	201,000,882	-	201,000,882	-
Unrestricted	5,908,301	47,319	5,955,620	1,658,173
Total net assets	\$ 210,916,563	\$ 612,332	\$ 211,528,895	\$ 1,658,173

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003**

Functions/ Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees and Charges		Operating Grants and Subventions	Restricted Special Revenues Sources *	Governmental Activities	Business-Type Activities	Total	S.C.A.Q.M.D. Building Corporation
		Stationary Sources	Mobile Sources						
Primary government:									
Governmental activities:									
Advance clean air technology	\$ 5,910,075	\$ 120,046	\$ 5,343,582	\$ 369,500	\$ -	\$ (76,947)	\$ -	\$ (76,947)	\$ -
Ensure compliance with clean air rules	33,217,922	28,511,428	870,450	3,433,982	-	(402,062)	-	(402,062)	-
Customer service	9,971,153	4,933,523	1,747,028	438,697	-	(2,851,905)	-	(2,851,905)	-
Develop programs to achieve clean air	6,178,611	2,738,219	1,422,700	434,658	-	(1,583,034)	-	(1,583,034)	-
Develop rules to achieve clean air	6,522,360	3,756,763	145,340	451,647	-	(2,168,610)	-	(2,168,610)	-
Monitoring air quality	9,973,509	4,793,715	201,546	2,208,771	-	(2,769,477)	-	(2,769,477)	-
Permit review	18,809,101	16,692,603	-	97,669	-	(2,018,829)	-	(2,018,829)	-
Policy support	2,547,327	1,289,413	514,644	-	-	(743,270)	-	(743,270)	-
Special funds activities	94,117,397	-	-	-	81,194,075	(12,923,322)	-	(12,923,322)	-
Total governmental activities	<u>187,247,455</u>	<u>62,835,710</u>	<u>10,245,290</u>	<u>7,434,924</u>	<u>81,194,075</u>	<u>(25,537,456)</u>	<u>-</u>	<u>(25,537,456)</u>	<u>-</u>
Business-type activities:									
Clean air store	908	-	-	-	-	-	(908)	(908)	-
CNG fueling station	81,005	-	-	-	-	-	(81,005)	(81,005)	-
Total business-type activities	<u>81,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(81,913)</u>	<u>(81,913)</u>	<u>-</u>
Total primary government	<u>\$ 187,329,368</u>	<u>\$ 62,835,710</u>	<u>\$ 10,245,290</u>	<u>\$ 7,434,924</u>	<u>\$ 81,194,075</u>	<u>(25,537,456)</u>	<u>(81,913)</u>	<u>(25,619,369)</u>	<u>-</u>
Component Unit:									
SCAQMD Building Corporation	\$ 2,096,966	\$ -	\$ -	\$ -	\$ -				(2,096,966)
Total component unit	<u>\$ 2,096,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(2,096,966)</u>
General revenues:									
Grants and subventions - not restricted to specific programs						2,965,584	-	2,965,584	-
Mobile sources - not restricted to specific programs						5,621,411	-	5,621,411	-
Interest						1,547,626	-	1,547,626	61,569
Lease revenue						348,743	-	348,743	-
Penalties/ settlements						5,795,147	-	5,795,147	-
Subscriptions						46,565	-	46,565	-
Other						407,016	-	407,016	2,011,000
Merchandise sale						-	45,055	45,055	-
Transfers						(608,476)	608,476	-	-
Total general revenues and transfers						<u>16,123,616</u>	<u>653,531</u>	<u>16,777,147</u>	<u>2,072,569</u>
Change in net assets						(9,413,840)	571,618	(8,842,222)	(24,397)
Net assets - July 1, 2002						220,330,403	40,714	220,371,117	1,682,570
Net assets - June 30, 2003						<u>\$ 210,916,563</u>	<u>\$ 612,332</u>	<u>\$ 211,528,895</u>	<u>\$ 1,658,173</u>

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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2003**

	General	Air Quality Improvement Fund	Mobile Sources Air Pollution Reduction Fund	Air Quality Investment Fund	Clean Fuels Program Fund	Carl Moyer Program Fund	Lower-Emission School Bus Fund	State-Emissions Mitigation Fund	Other Governmental Funds	Total
<u>Assets</u>										
Cash and cash equivalents	\$ 52,623,530	\$ 1,589,508	\$ 32,106,107	\$ 32,351,508	\$ 34,636,483	\$ 33,425,253	\$ 13,779,019	\$ 13,993,453	\$ 38,020,938	\$ 252,525,799
Investments	-	-	5,000,000	-	5,003,125	-	-	-	-	10,003,125
Interest receivable	181,257	9,713	138,714	116,480	152,114	121,494	58,112	52,729	108,173	938,786
Due from other governmental agencies	6,699,982	3,048,130	2,286,098	-	1,892,406	216,383	-	-	-	14,142,999
Due from other funds	300,848	-	-	-	1,125,542	-	-	-	-	1,426,390
Accounts receivable, net	514,182	-	-	173,373	178,702	-	-	-	1,359,621	2,225,878
Inventories	52,964	-	-	-	-	-	-	-	-	52,964
Total assets	<u>\$ 60,372,763</u>	<u>\$ 4,647,351</u>	<u>\$ 39,530,919</u>	<u>\$ 32,641,361</u>	<u>\$ 42,988,372</u>	<u>\$ 33,763,130</u>	<u>\$ 13,837,131</u>	<u>\$ 14,046,182</u>	<u>\$ 39,488,732</u>	<u>\$ 281,315,941</u>
<u>Liabilities and fund balances</u>										
Liabilities:										
Accounts payable and accrued liabilities	\$ 2,045,358	\$ 55,800	\$ 3,589,621	\$ 3,274,006	\$ 1,987,240	\$ 4,612,136	\$ 1,757,349	\$ 1,173,378	\$ 1,727,620	\$ 20,222,508
Salaries and benefits payable	4,088,809	-	-	-	-	-	-	-	-	4,088,809
Due to other funds	126,026	-	300,506	-	-	-	-	-	1,464,640	1,891,172
Deferred revenue	9,318,560	-	-	-	-	-	-	-	-	9,318,560
Total liabilities	<u>15,578,753</u>	<u>55,800</u>	<u>3,890,127</u>	<u>3,274,006</u>	<u>1,987,240</u>	<u>4,612,136</u>	<u>1,757,349</u>	<u>1,173,378</u>	<u>3,192,260</u>	<u>35,521,049</u>
Fund balances:										
Reserved for encumbrances	7,563,918	105,301	15,130,687	8,789,422	8,104,680	16,267,539	9,773,641	11,700,097	5,359,915	82,795,200
Reserved for inventories	52,964	-	-	-	-	-	-	-	-	52,964
Unreserved:										
General fund	37,177,128	-	-	-	-	-	-	-	-	37,177,128
Special revenue funds	-	4,486,250	20,510,105	20,577,933	32,896,452	12,883,455	2,306,141	1,172,707	30,936,557	125,769,600
Total fund balances	<u>44,794,010</u>	<u>4,591,551</u>	<u>35,640,792</u>	<u>29,367,355</u>	<u>41,001,132</u>	<u>29,150,994</u>	<u>12,079,782</u>	<u>12,872,804</u>	<u>36,296,472</u>	<u>245,794,892</u>
Total liabilities and fund balances	<u>\$ 60,372,763</u>	<u>\$ 4,647,351</u>	<u>\$ 39,530,919</u>	<u>\$ 32,641,361</u>	<u>\$ 42,988,372</u>	<u>\$ 33,763,130</u>	<u>\$ 13,837,131</u>	<u>\$ 14,046,182</u>	<u>\$ 39,488,732</u>	<u>\$ 281,315,941</u>

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2003**

Fund Balances – Total Governmental Funds	\$245,794,892
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets net of accumulated depreciation have not been included as financial resources in governmental funds activity. These capital assets are reported in the Statement of Net Assets as capital assets of AQMD as a whole.	61,582,380
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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.	(678,260)
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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	(84,521,896)
General liability	(201,571)
Workers' compensation	(475,170)
Compensated absences	<u>(10,583,812)</u>

Net Assets of Governmental Activities	<u>\$210,916,563</u>
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**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003**

	General Fund	Air Quality Improvement Fund	Mobile Sources Air Pollution Reduction Fund	Air Quality Investment Fund	Clean Fuels Program Fund	Carl Moyer Program Fund	Lower-Emission School Bus Fund	State-Emissions Mitigation Fund	Other Governmental Funds	Total
Revenues:										
Emission fees	\$ 20,118,430	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,118,430
Annual operating fees	27,422,331	-	-	-	-	-	-	-	-	27,422,331
Permit fees	13,111,610	-	-	-	-	-	-	-	-	13,111,610
Clean fuels/ mobile/ stationary sources	15,178,423	17,800,839	13,350,629	-	10,612,166	-	-	-	-	56,942,057
Emission reduction fees	-	-	-	-	-	-	-	-	13,054,700	13,054,700
Air Toxics	1,524,160	-	-	-	-	-	-	-	50,936	1,575,096
Transportation	688,278	-	-	-	-	-	-	-	-	688,278
State subvention	4,394,639	-	-	-	-	-	-	-	-	4,394,639
Federal grant	6,005,869	-	-	-	-	-	-	-	-	6,005,869
State grant	-	-	-	-	408,800	620,383	-	-	5,637,264	6,666,447
Interest	1,547,626	45,007	915,409	703,450	1,059,895	756,033	480,816	363,327	513,180	6,384,743
Lease revenue	348,743	-	-	-	-	-	-	-	-	348,743
Source test/analysis fees	382,502	-	-	-	-	-	-	-	-	382,502
Hearing Board	276,677	-	-	-	-	-	-	-	-	276,677
Penalties/settlements	5,795,147	-	-	-	-	-	-	-	-	5,795,147
Subscriptions	46,565	-	-	-	-	-	-	-	-	46,565
RECLAIM & executive order mitigation	-	-	-	626,187	-	-	-	-	-	626,187
Other	407,016	-	-	6,414,509	1,697,174	-	250,000	4,100,000	1,733,371	14,602,070
Total revenues	<u>97,248,016</u>	<u>17,845,846</u>	<u>14,266,038</u>	<u>7,744,146</u>	<u>13,778,035</u>	<u>1,376,416</u>	<u>730,816</u>	<u>4,463,327</u>	<u>20,989,451</u>	<u>178,442,091</u>
Expenditures:										
Current:										
Salaries and employee benefits	66,242,716	-	-	-	-	-	-	-	-	66,242,716
Insurance	1,031,651	-	-	-	-	-	-	-	-	1,031,651
Rent	725,320	-	-	-	-	-	-	-	-	725,320
Supplies	3,093,574	-	-	-	-	-	-	-	-	3,093,574
Contract and special services	9,800,281	17,966,601	15,955,480	6,157,654	6,851,201	6,485,265	20,405,964	9,572,481	6,188,430	99,383,357
Maintenance	942,576	-	-	-	-	-	-	-	-	942,576
Travel and auto	452,749	-	-	-	-	-	-	-	-	452,749
Utilities	1,663,243	-	-	-	-	-	-	-	-	1,663,243
Communications	524,011	-	-	-	-	-	-	-	-	524,011
Uncollectible accounts	77,609	-	-	-	7,938	-	-	-	36,302	121,849
Other expenditures	41,496	55,800	388,339	3,094,708	950,815	(394,278)	-	68,468	84,302	4,289,650
Capital outlay	1,151,786	-	-	-	-	-	-	-	241,927	1,393,713
Debt service:										
Principal	6,025,000	-	-	-	-	-	-	-	-	6,025,000
Interest	2,802,384	-	-	-	-	-	-	-	-	2,802,384
Total expenditures	<u>94,574,396</u>	<u>18,022,401</u>	<u>16,343,819</u>	<u>9,252,362</u>	<u>7,809,954</u>	<u>6,090,987</u>	<u>20,405,964</u>	<u>9,640,949</u>	<u>6,550,961</u>	<u>188,691,793</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,673,620</u>	<u>(176,555)</u>	<u>(2,077,781)</u>	<u>(1,508,216)</u>	<u>5,968,081</u>	<u>(4,714,571)</u>	<u>(19,675,148)</u>	<u>(5,177,622)</u>	<u>14,438,490</u>	<u>(10,249,702)</u>
Other financing sources (uses):										
Transfers in	-	-	-	-	-	-	4,898,853	-	2,500,000	7,398,853
Transfers out	(2,000,000)	-	-	(500,000)	-	-	-	-	(4,898,853)	(7,398,853)
Total other financing sources (uses)	<u>(2,000,000)</u>	<u>-</u>	<u>-</u>	<u>(500,000)</u>	<u>-</u>	<u>-</u>	<u>4,898,853</u>	<u>-</u>	<u>(2,398,853)</u>	<u>-</u>
Net change in fund balances	<u>673,620</u>	<u>(176,555)</u>	<u>(2,077,781)</u>	<u>(2,008,216)</u>	<u>5,968,081</u>	<u>(4,714,571)</u>	<u>(14,776,295)</u>	<u>(5,177,622)</u>	<u>12,039,637</u>	<u>(10,249,702)</u>
Fund balances, June 30, 2002	44,120,390	4,768,106	37,718,573	31,375,571	35,033,051	33,865,565	26,856,077	18,050,426	24,256,835	256,044,594
Fund balances, June 30, 2003	\$ <u>44,794,010</u>	\$ <u>4,591,551</u>	\$ <u>35,640,792</u>	\$ <u>29,367,355</u>	\$ <u>41,001,132</u>	\$ <u>29,150,994</u>	\$ <u>12,079,782</u>	\$ <u>12,872,804</u>	\$ <u>36,296,472</u>	\$ <u>245,794,892</u>

See accompanying notes to basic financial statements.

**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, 2003**

Net Change in Fund Balances - Total Governmental Funds \$(10,249,702)

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. 1,393,713

Capital assets transferred to proprietary fund are not flow of current financial resources, and, therefore, are not reported in the funds. (608,476)

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. (4,880,073)

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. 6,025,000

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. (678,260)

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	117,558
General liability/workers compensation claims	<u>(533,600)</u>

Changes in Net Assets of Governmental Activities: \$(9,413,840)

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
June 30, 2003**

	Proprietary Funds		
	Clean Air Store Fund	CNG Fueling Station Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 11,761	\$ 32,812	\$ 44,573
Accounts receivable, net	-	7,700	7,700
Inventories	4,354	-	4,354
Total current assets	<u>16,115</u>	<u>40,512</u>	<u>56,627</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	-	565,013	565,013
Total noncurrent assets	<u>-</u>	<u>565,013</u>	<u>565,013</u>
Total assets	<u>16,115</u>	<u>605,525</u>	<u>621,640</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	41	9,267	9,308
Total liabilities	<u>41</u>	<u>9,267</u>	<u>9,308</u>
<u>Net assets</u>			
Invested in capital assets, net of related debt	-	565,013	565,013
Unrestricted	16,074	31,245	47,319
Total net assets	<u>\$ 16,074</u>	<u>\$ 596,258</u>	<u>\$ 612,332</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 FUND
For the Year Ended June 30, 2003**

	Proprietary Funds		
	Clean Air Store Fund	CNG Fueling Station Fund	Total
Revenue:			
Merchandise sales	\$ 1,268	\$ 43,787	\$ 45,055
Total operating revenue	<u>1,268</u>	<u>43,787</u>	<u>45,055</u>
Expenses:			
Depreciation	-	43,463	43,463
Other expenses	908	37,542	38,450
Total operating expenses	<u>908</u>	<u>81,005</u>	<u>81,913</u>
Operating income (loss)	<u>360</u>	<u>(37,218)</u>	<u>(36,858)</u>
Income (loss) before capital contributions	<u>360</u>	<u>(37,218)</u>	<u>(36,858)</u>
Capital contributions	-	608,476	608,476
Total nonoperating revenues	<u>-</u>	<u>608,476</u>	<u>608,476</u>
Changes in net assets	360	571,258	571,618
Total net assets, June 30, 2002	<u>15,714</u>	<u>25,000</u>	<u>40,714</u>
Total net assets, June 30, 2003	<u>\$ 16,074</u>	<u>\$ 596,258</u>	<u>\$ 612,332</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2003**

	Proprietary Funds		
	Clean Air Store Fund	CNG Fueling Station Fund	Total
<u>Cash flows from operating activities:</u>			
Cash received from merchandise sales	\$ 1,368	\$ 36,087	\$ 37,455
Cash payment for goods and services	(92)	(28,275)	(28,367)
Net cash provided by operating activities	<u>1,276</u>	<u>7,812</u>	<u>9,088</u>
Beginning cash balance, June 30, 2002	<u>10,485</u>	<u>25,000</u>	<u>35,485</u>
Ending cash balance, June 30, 2003	<u>\$ 11,761</u>	<u>\$ 32,812</u>	<u>\$ 44,573</u>
 <u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u>			
Operating income (loss)	\$ <u>360</u>	\$ <u>(37,218)</u>	\$ <u>(36,858)</u>
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	-	43,463	43,463
(Increase) decrease in accounts receivable	-	(7,700)	(7,700)
Decrease (increase) in inventories	908	-	908
Increase (decrease) in accounts payable	<u>8</u>	<u>9,267</u>	<u>9,275</u>
Total adjustments	<u>916</u>	<u>45,030</u>	<u>45,946</u>
Net cash provided by operating activities	<u>\$ 1,276</u>	<u>\$ 7,812</u>	<u>\$ 9,088</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
For the Year Ended June 30, 2003**

	Agency Funds	Retirement Benefit Trust Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 503,532	\$ 1,546,070
Interest receivable	2,446	7,782
Due from other funds	464,298	484
Total assets	\$ 970,276	\$ 1,554,336
<u>Liabilities</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 970,276	\$ -
Total liabilities	\$ 970,276	-
<u>Net assets</u>		
Net assets held in trust for retirement benefits		\$ 1,554,336

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, 2003**

	<u>Retirement Benefit Trust Fund</u>
<u>Additions:</u>	
Contributions	\$ 3,149
Interest	<u>34,187</u>
Total additions	<u>37,336</u>
 <u>Deductions:</u>	
Other expenditures	<u>-</u>
Total deductions	<u>-</u>
Change in net assets	37,336
Net assets held in trust for retirement benefits, June 30, 2002	<u>1,517,000</u>
Net assets held in trust for retirement benefits, June 30, 2003	<u><u>\$ 1,554,336</u></u>

See accompanying notes to the basic financial statements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2003

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 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. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the AQMD.

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 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 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, 2003

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

- Government-wide financial statements
- Governmental fund financial statements
- Notes to the 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 liability, rather than as 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 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 with 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) special revenue sources. Program revenues are netted with program expenses 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 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 10.0% 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 5.0% 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, Air Quality Investment Fund, Clean Fuels Program Fund, Carl Moyer Program Fund, Lower-Emission School Bus Fund, and State Emission Mitigation Fund in addition to the General Fund. The AQMD has elected to include the State Emissions Mitigation Fund as a major fund this year for consistency of reporting.

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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 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 present 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 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.

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Fiduciary Fund Statements

Fiduciary Fund financial statements include a Statement of 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. Agency Funds use the accrual basis of accounting.

C. Fund Types and Major Funds

As noted earlier, the funds designated as major funds are determined in accordance with GASB Statement No. 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 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 40.0% of the revenue received by the AQMD from motor vehicle registration fees under the provisions of Section 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 30.0% 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 \$163 million and over 10,200 tons of emissions reduced. This special fund was established in FY 1991-92.
- Air Quality Investment Fund - Used to account for monies submitted by employers in lieu of complying with the provisions of Rule 2202. Rule 2202 provides employers with a menu of options to reduce mobile source emissions generated from employee commutes and options to meet a worksite-specific emission reduction target for the subsequent year. Employers with 250 or more employees at a worksite are subject to this rule. Total funded projects amount to \$20.9 million and over 13,000 tons of emission reductions achieved. During fiscal year 2003, 15 contracts were awarded in the amount of \$5.9 million.

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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.

- 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 691 projects totaling \$97.6 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 2,576 vehicles and 33 infrastructure/charging stations, totaling \$53.8 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.
- 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 \$35 million for school bus replacement and \$17.8 million for retrofit has been provided for the period of fiscal years 2002 through 2003.
- 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.

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

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The AQMD reports the following major proprietary funds:

- Clean Air Store Fund – Used to account for 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. This is to 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.

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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.

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.

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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 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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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.

Fund balances have been reserved for the following purposes at June 30, 2003:

	<u>General Fund</u>	<u>Major Governmental Funds</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Reserved for:				
Encumbrances	\$7,563,918	\$69,871,367	\$5,359,915	\$82,795,200
Inventories	<u>52,964</u>	<u>-</u>	<u>-</u>	<u>52,964</u>
Total Reserved Fund Balances	<u>\$7,616,882</u>	<u>\$69,871,367</u>	<u>\$5,359,915</u>	<u>\$82,848,164</u>

Unreserved fund balance has the following components at June 30, 2003:

	<u>General Fund</u>	<u>Major Governmental Funds</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Designated for:				
Self-insurance	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Litigation/Enforcement Equipment	825,000	-	-	825,000
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 Mitigation	722,225	-	-	722,225
Undesignated	<u>26,258,842</u>	<u>94,833,043</u>	<u>30,936,557</u>	<u>152,028,442</u>
Total Unreserved Fund Balances	<u>37,177,128</u>	<u>94,833,043</u>	<u>30,936,557</u>	<u>162,946,728</u>
Total Fund Balances	<u>\$ 44,794,010</u>	<u>\$ 164,704,410</u>	<u>\$ 36,296,472</u>	<u>\$ 245,794,892</u>

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

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expenditures during the reporting period. Actual results could differ from those estimates.

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, 2003.

	Primary Government	Component Unit
Cash on hand	\$ 516,916	\$ -
Cash in bank	60,000	1,214,604
Cash equivalents in pooled investments	<u>254,043,058</u>	<u>-</u>
	<u>\$254,619,974</u>	<u>\$1,214,604</u>

DEPOSITS

At June 30, 2003, the carrying amount of the AQMD's bank deposits was \$60,000 and the bank balance was \$76,763. The entire amount was covered by federal depository insurance.

At June 30, 2003, the carrying amount and bank balance of the AQMD's component unit bank deposits was \$1,214,604 of which \$100,000 was covered by federal depository insurance. The remaining \$1,114,604 in excess of \$100,000 was collateralized as required by state law.

INVESTMENTS

At June 30, 2003, 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 \$254,043,058 stated at fair value which approximates market value. Investments in the amount of \$10,003,125 are reported at fair value which approximates costs.

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 26 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. In April 1996 and again in June 2000, the Governing Board reviewed the treasury management options available to the AQMD and elected to continue with the services provided by Los Angeles County.

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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 as required by law.

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 102.0%
- 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 investments that are represented by specific identifiable investment securities are classified as to credit risk in three categories as follows:

Category 1 – Insured or registered or securities held by the AQMD or its agent in the AQMD's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the AQMD's name;

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the AQMD's name.

Investments in pools managed by other governments or in mutual funds, including the State Treasurer's Local Agency Investment Fund (LAIF), are not required to be categorized.

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The following table summarizes investments categorized in accordance with GASB Statement No. 3 at June 30, 2003.

	<u>Category</u>			<u>Uncategorized</u>	<u>Reported Amount/Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash Equivalents					
Investment in Los Angeles County's PSI Fund	\$ -	\$ -	\$ -	<u>\$215,078,724</u>	\$215,078,724
Investment in Local Agency Investment Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,964,334</u>	<u>38,964,334</u>
Total Cash Equivalents	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$254,043,058</u>	<u>\$254,043,058</u>
Investments					
U.S. Government Securities	<u>\$10,003,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,003,125</u>
Total Investments	<u>10,003,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,003,125</u>
Total Cash Equivalent & Investments	<u>\$10,003,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$254,043,058</u>	<u>\$264,046,183</u>

The AQMD is a voluntary participant in the 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.

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

Due from other government agencies at June 30, 2003 consists of the following:

California Energy Commission – Support Alternative Fuel Infrastructure	\$ 216,383
U.S. Treasury, GSA (Lease)	4,277
Environmental Protection Agency	4,409,607
Department of Motor Vehicles	<u>9,512,732</u>
Total	<u>\$14,142,999</u>

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IV. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The comparison of interfund balances as of June 30, 2003 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Mobile Sources Air Pollution Reduction Fund	\$ 300,506
General Fund	Air Toxics Fund	342
Fiduciary Fund – Retirement Benefit Trust	General Fund	484
Agency Fund – General Purpose Fund	Air Toxics Fund	464,298
Clean Fuels Program	General Fund	125,542
Clean Fuels Program	Los Angeles Department of Water and Power (LADWP) Settlement Fund	<u>1,000,000</u>
Total		<u>\$1,891,172</u>

Transfers Out	Transfers In			TOTAL
	Dry Cleaners Financial Incentives Grant	AES Settlement Projects	Lower Emission School Bus Replacement & Retrofit	
General Fund	\$2,000,000	\$ -	\$ -	\$2,000,000
Air Quality Investment Fund	-	500,000	-	500,000
AES Settlement Projects State Backup Generator Program	-	-	500,000	500,000
Total	<u>\$2,000,000</u>	<u>\$ 500,000</u>	<u>\$4,898,853</u>	<u>\$7,398,853</u>

The transfer into the Dry Cleaners Financial Incentives Grant Program in the amount of \$2,000,000 represents the amount authorized by the Governing Board to formally establish this special revenue fund.

The transfer into the Lower Emission School Bus Replacement & Retrofit Program in the amount of \$500,000 was re-authorized funding from the AES Settlement Projects Fund. This amount was originally transferred to AES Settlement Projects Fund from the Air Quality Investment Fund.

The Lower Emission School Bus Replacement & Retrofit Program Fund also received a transfer from the State Backup Generator Fund in the amount of \$4,398,853 for the school bus replacement and retrofit programs.

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V. CAPITAL ASSETS AND DEPRECIATION

In compliance with GASB Statement No. 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, 2003 were as follows:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2003</u>
Governmental Activities:				
Land and Improvements	\$ 9,061,762	\$ -	\$ -	\$ 9,061,762
Buildings and Improvements	73,179,072	241,927	-	73,420,999
Equipment	<u>24,156,548</u>	<u>1,557,259</u>	<u>(4,367,710)</u>	<u>21,346,097</u>
Total	106,397,382	1,799,186	(4,367,710)	103,828,858
Less:				
Accumulated Depreciation	<u>(39,578,265)</u>	<u>(4,880,073)</u>	<u>2,211,860</u>	<u>(42,246,478)</u>
Net Book Value of, Capital Assets- Governmental Activities	<u>\$ 66,819,117</u>	<u>(\$ 3,080,887)</u>	<u>(\$ 2,155,850)</u>	<u>\$ 61,582,380</u>
Business-Type Activities:				
Compressed Natural Gas (CNG) Fueling Station	\$ -	\$608,476	\$ -	\$ 608,476
Less:				
Accumulated Depreciation	<u>-</u>	<u>(43,463)</u>	<u>-</u>	<u>(43,463)</u>
Net Book Value of, Capital Assets-Business- Type Activities	<u>\$ -</u>	<u>\$ 565,013</u>	<u>\$ -</u>	<u>\$ 565,013</u>

For the year ended June 30, 2003, the depreciation expense of \$4,880,073 was charged to the AQMD's functions/programs in the governmental activities as follows:

Advance Clean Air Technology	\$ 129,716
Ensure Compliance with Clean Air Rules	2,140,631
Customer Service	354,711
Develop Programs to Achieve Clean Air	199,802
Develop Rules to Achieve Clean Air	226,010
Monitoring Air Quality	1,058,189
Permit Review	712,209
Policy Support	<u>58,805</u>
Total Depreciation Expense	<u>\$ 4,880,073</u>

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VI. LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the AQMD for the year ended June 30, 2003:

	Balance <u>July 1, 2002</u>	<u>Addition</u>	<u>Reduction</u>	Balance <u>June 30, 2003</u>	Amounts Due Within <u>One Year</u>	Amounts Due in More <u>Than One Year</u>
Governmental Activities:						
Claims Payable:						
General Liability	\$ 113,871	\$219,917	(\$132,217)	\$ 201,571	\$ 86,100	\$ 115,471
Workers' Compensation	229,270	509,284	(263,384)	475,170	199,571	275,599
Compensated absences	10,701,370	218,345	(335,903)	10,583,812	377,920	10,205,892
Installment Sale Obligation:						
Building	61,990,000	-	(4,415,000)	57,575,000	4,325,000	53,250,000
Equipment	42,654	-	(42,654)	-	-	-
Installment Pension						
Obligation Bond	<u>28,556,896</u>	<u>-</u>	<u>(1,610,000)</u>	<u>26,946,896</u>	<u>1,715,000</u>	<u>25,231,896</u>
	<u>\$101,634,061</u>	<u>\$947,546</u>	<u>(\$6,799,158)</u>	<u>\$95,782,449</u>	<u>\$6,703,591</u>	<u>\$89,078,858</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, 2003, \$1,610,000 in principal and \$1,457,213 in interest were paid on the bonds. The principal balance outstanding at June 30, 2003 amounted to \$26,946,896.

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

Year Ending	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	2004	\$ 1,715,000	\$ 1,349,693	\$ 3,064,693
	2005	1,835,000	1,232,598	3,067,598
	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
	2009-2012	10,695,000	1,567,333	12,262,333
	2013-2017	3,822,024	11,501,983	15,324,007
	2018-2022	<u>2,579,872</u>	<u>12,745,128</u>	<u>15,325,000</u>
	Total	<u>\$ 26,946,896</u>	<u>\$ 31,295,432</u>	<u>\$ 58,242,328</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2003**

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, 2003, the remaining balance was \$22,140,000.

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, 2003, 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 6.0% 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%. The net proceeds of \$26,636,002 were deposited with an escrow agent to provide for debt service payments on the Series 1992 bonds. As a result, \$25,460,000 of the Series 1992 bonds are considered to be defeased and the liability for that portion has been removed from bonds payable. The Corporation refunded portions of the 1992 Series bonds to reduce its total debt service payments by approximately \$2,477,246 and to obtain a present value savings of \$1,958,135.

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	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 4,325,000	\$ 1,565,180	\$ 5,890,180
2005	4,515,000	1,544,589	6,059,589
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 – 2012	19,905,000	4,569,820	24,474,820
2013 – 2015	<u>15,130,000</u>	<u>877,786</u>	<u>16,007,786</u>
Total	<u>\$57,575,000</u>	<u>\$13,035,471</u>	<u>\$70,610,471</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2003**

Prior Year's Defeasance of Debt

In the prior year, the AQMD defeased a portion of the Series 1992 bonds by depositing bond proceeds to an escrow agent. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called for redemption or matures. At June 30, 2003, there are no outstanding defeased bonds.

Total interest expenses on long-term debt for the year ended June 30, 2003 amounted to \$3,480,644. The following is the interest expenses allocated to the various functional activities categories.

Advance Clean Air Technology	\$ 140,719
Ensure Compliance with Clean Air Rules	1,324,697
Customer Service	383,779
Develop Programs to Achieve Clean Air	215,760
Develop Rules to Achieve Clean Air	239,025
Monitoring Air Quality	345,005
Permit Review	768,000
Policy Support	<u>63,659</u>
 Total Interest on Long-term Debt	 <u>\$3,480,644</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 is insured for commercial property (real and personal), boiler and machinery, directors' and officers' liability (including employment practice liability), employee dishonesty and theft, business auto liability for alternative fueled vehicles, excess general and automobile liability, and excess workers' compensation losses. As for general, automobile, and workers' compensation liabilities, the AQMD is self-insured up to the applicable retention for the excess insurance coverage.

The AQMD carries \$118,941,052 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), \$500,000 for employee dishonesty and theft, \$1 million for business auto liability for alternative fueled vehicles, \$5 million for excess general and automobile losses in excess of \$1 million, and excess workers' compensation for losses over \$500,000. 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 \$500,000. As of June 30, 2003, \$475,170 and \$201,571, respectively, had been accrued for workers' compensation and general liability claims.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2003

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, 2003, is dependent on future development based upon information from the independent claims' administrators 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, 2002 and 2003:

	<u>General Liability</u>	<u>Workers' Compensation</u>	<u>Totals</u>
Claims payable, July 1, 2001	\$139,394	\$242,156	\$381,550
Current year claims and changes in estimates	81,693	104,881	186,574
Claim payments	<u>(107,216)</u>	<u>(117,767)</u>	<u>(224,983)</u>
Claims payable, June 30, 2002	<u>\$113,871</u>	<u>\$229,270</u>	<u>\$343,141</u>
Claims payable, July 1, 2002	\$113,871	\$229,270	\$343,141
Current year claims and changes in estimates	219,917	509,284	729,201
Claims payments	<u>(132,217)</u>	<u>(263,384)</u>	<u>(395,601)</u>
Claims payable, June 30, 2003	<u>\$201,571</u>	<u>\$475,170</u>	<u>\$676,741</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, 2003 amounted to \$4,379,735 (\$21,934 to Los Angeles County Employees' Retirement Association and \$4,357,801 to San Bernardino County Employees' Retirement Association).

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 fiscal year 2002-2003 there were only three active members.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2003

Los Angeles County Employees' Retirement Association

The AQMD contributes to the Los Angeles County Employees' Retirement Association (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 three employees covered by LACERA for the year ended June 30, 2003 was \$157,425. The AQMD's contribution for the same period was \$21,934. 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 San Bernardino County Employees' Retirement Association (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 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 2.0% 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, 2003 were 8.58% for management, confidential and any employee who started before July 1, 1979 and 6.67% 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.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2003**

Annual Pension Cost

For the year ended June 30, 2003, the AQMD's annual pension cost and actual contributions for its 770 employees who are SBCERA members were \$4,357,801. The AQMD employee contributions to the plan amounted to \$981,006. The required contributions for the year ended June 30, 2003 were determined as part of the June 30, 2002 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 of 2.00% per annum. Both (a) and (b) include an inflation component of 4.25%.

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 unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Three-Year Trend Information for the Plan

<u>Fiscal Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$4,357,801	100%	-
2002	4,114,275	100%	-
2001	3,132,576	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, 2003, investments with a fair value of \$40,278,117 are held in trust.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2003

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 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. AQAF’s fund balance amounted to \$2,362,469 at fiscal year ending June 30, 2003.

Operating Leases

Rental expense for noncancelable operating leases was \$425,765 for the year ended June 30, 2003. Future minimum lease payments under noncancelable operating leases of the AQMD total as follows:

Year Ending June 30, 2004	\$507,923
Year Ending June 30, 2005	510,379
Year Ending June 30, 2006	130,156
Through September 30, 2006	<u>24,548</u>
Total	<u>\$1,173,006</u>

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

XI. PENDING LITIGATION

A number of 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, 2003.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
For the Year Ended June 30, 2003**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive
	Original	Final		(Negative)
<u>Revenues:</u>				
Emission fees	\$ 24,856,300	\$ 24,856,300	\$ 20,118,430	\$ (4,737,870)
Annual operating fees	25,994,000	25,994,000	27,422,331	1,428,331
Permit fees	13,530,000	13,530,000	13,111,610	(418,390)
Clean fuels/ mobile/ stationary sources	14,496,000	15,322,830	15,178,423	(144,407)
Air toxics	1,445,000	1,570,000	1,524,160	(45,840)
Transportation	779,000	779,000	688,278	(90,722)
State subvention	4,066,900	4,066,900	4,394,639	327,739
Federal grant	4,700,000	7,792,787	6,005,869	(1,786,918)
Interest	2,100,000	2,100,000	1,547,626	(552,374)
Lease revenue	255,500	255,500	348,743	93,243
Source test/ analysis fees	273,700	273,700	382,502	108,802
Hearing board	307,500	307,500	276,677	(30,823)
Penalties/ settlements	4,000,000	4,000,000	5,795,147	1,795,147
Subscriptions	63,000	63,000	46,565	(16,435)
Other	1,500,000	1,633,700	407,016	(1,226,684)
Total revenue	<u>98,366,900</u>	<u>102,545,217</u>	<u>97,248,016</u>	<u>(5,297,201)</u>
<u>Expenditures:</u>				
Current:				
Salaries and employee benefits	65,860,812	67,034,512	66,242,716	791,796
Insurance	1,401,720	1,405,386	967,500	437,886
Rent	915,007	895,158	728,427	166,731
Supplies	3,032,210	3,617,336	2,855,743	761,593
Contract and special services	10,511,608	12,237,583	9,107,990	3,129,593
Maintenance	1,425,596	1,599,279	983,528	615,751
Travel and auto	467,900	583,461	452,749	130,712
Utilities	1,933,619	1,941,021	1,773,243	167,778
Communications	836,400	837,470	564,011	273,459
Uncollectible accounts	-	1,264	77,609	(76,345)
Other expenditures	951,555	1,124,768	(235,618)	1,360,386
Capital outlays	2,275,800	2,900,837	1,155,130	1,745,707
Debt service:				
Principal	6,025,000	6,025,000	6,025,000	-
Interest	3,519,288	3,519,288	2,802,384	716,904
Total expenditures	<u>99,156,515</u>	<u>103,722,363</u>	<u>93,500,412</u>	<u>10,221,951</u>
<u>Other Financing Sources (Uses)</u>				
Transfers out	-	-	(2,000,000)	(2,000,000)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>
Net change in fund balances	<u>\$ (789,615)</u>	<u>\$ (1,177,146)</u>	<u>\$ 1,747,604</u>	<u>\$ 2,924,750</u>

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, 2003**

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

The AQMD has a comprehensive budget process which establishes goals and objectives and monitors progress in 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: meetings of a Budget Advisory Committee 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 May meeting of the Governing Board. The adopted budget and the final fee schedules become operative on July 1.

The AQMD's annual budget is adopted for the General Fund at the Major Object level. 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 by Office are issued along with detailed semi-annual reports to the Governing Board regarding contract expenditures. A year-end report to the Governing Board on all budget transfers and Board appropriations is also presented annually.

The AQMD presents a comparison of annual budget to actual results for the General Fund. The budgeted expenditures 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 during the fiscal year which were based upon new or additional revenue sources. Supplemental appropriations in expenditures of \$4,565,848 and revenues of \$4,178,317 were approved by the Governing Board in FY 2002-03.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2003**

NOTE 2 – GENERAL FUND BUDGETARY BASIS RECONCILIATION

The General Fund Budget and Actual (Non-GAAP Budgetary Basis) Schedule on page 52 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, a reconciliation of differences is presented below for the year ended June 30, 2003.

Expenditures and encumbrances (budgetary basis), June 30, 2003	\$ 93,500,412
Add: payments on encumbrances open at July 1, 2002	5,314,398
Less: encumbrances open at June 30, 2003	<u>(4,240,414)</u>
Expenditures (GAAP basis), June 30, 2003	\$ <u>94,574,396</u>

A reconciliation of revenue is not presented since budgetary practices and Generally Accepted Accounting Principles do not differ with respect to revenue.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2003**

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2003**

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. Recommendations as to the types of studies to be undertaken are made by an independent Planning Review Panel. The Executive Officer approves all studies prior to funding. The purpose of the studies is to obtain better quantification of 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 used for 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 improve participation of small businesses. Certain revisions, including participation in the California Capital Access Program (CalCAP) to assist small businesses, were implemented in June 2001.
- Zero Emission Vehicle Incentive Program – Established in FY 2001 to administer the State funds set aside for the implementation of the Zero Emission Vehicle (ZEV) Incentive Program.
- AES Settlement Projects Fund – Established in FY 2001 for the purpose of accounting for the one-time penalty settlement with AES Corporation for air pollution violations.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2003**

- Rule 1309.1 Priority Reserve Fund – Established in FY 2001 to account for mitigation fees paid for 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 (Particulate Matter ≤ 10 microns) emission increases provided that they meet specific criteria and pay appropriate mitigation fees).
- CARB ERC Bank Fund – Established in FY 2001 to account for the proceeds from the issuance of the Emission Reduction Credits (ERCs) to natural gas turbine power plant peaker units. At the direction of the Governor, the California Air Resources Board (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 FY 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 FY 2003 to account for the funds received from California Air Resources Board'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 FY 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 Cleaners Financial Incentives Grant Program – Established in FY 2003 to provide financial incentives to dry cleaners to purchase non-toxic alternative dry cleaning equipment.

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 FUNDS
June 30, 2003**

	Special Revenue				
	Air Quality Studies Fund	Air Toxics Fund	Advanced Technology Fund	Air Quality Assistance Fund	Zero Emission Vehicle Incentive Fund
<u>Assets</u>					
Cash and cash equivalents	\$ 51,770	\$ 1,114,766	\$ 534,203	\$ 2,322,741	\$ 1,496,245
Interest receivable	185	5,130	1,935	8,991	5,964
Accounts receivable, net	-	1,305,727	-	30,737	-
Total assets	\$ 51,955	\$ 2,425,623	\$ 536,138	\$ 2,362,469	\$ 1,502,209
 <u>Liabilities and fund balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ -	\$ 447,600	\$ 126,145	\$ -	\$ 426,000
Due to other funds	-	464,640	-	-	-
Total liabilities	-	912,240	126,145	-	426,000
 Fund balances:					
Reserved for encumbrances	-	-	35,828	-	732,000
Unreserved	51,955	1,513,383	374,165	2,362,469	344,209
Total fund balances	51,955	1,513,383	409,993	2,362,469	1,076,209
 Total liabilities and fund balances	\$ 51,955	\$ 2,425,623	\$ 536,138	\$ 2,362,469	\$ 1,502,209

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR FUNDS
June 30, 2003**

	Special Revenue				
	AES Settlement Projects Fund	Rule 1309.1 Priority Reserve Fund	CARB ERC Bank Fund	LADWP Settlement Fund	Natural Gas Vehicle Partnership Fund
<u>Assets</u>					
Cash and cash equivalents	\$ 5,371,209	\$ 20,455,527	\$ 720,868	\$ 1,504,369	\$ 385,077
Interest receivable	20,168	51,214	2,578	3,484	1,208
Accounts receivable, net	-	-	-	23,157	-
Total assets	\$ 5,391,377	\$ 20,506,741	\$ 723,446	\$ 1,531,010	\$ 386,285
<u>Liabilities and fund balances</u>					
<u>Liabilities:</u>					
Accounts payable & accrued liabilities	\$ 202,514	\$ 400,000	\$ -	\$ 86,736	\$ 18,625
Due to other funds	-	-	-	1,000,000	-
Total liabilities	202,514	400,000	-	1,086,736	18,625
<u>Fund balances:</u>					
Reserved for encumbrances	3,463,143	737,542	-	281,000	85,402
Unreserved	1,725,720	19,369,199	723,446	163,274	282,258
Total fund balances	5,188,863	20,106,741	723,446	444,274	367,660
Total liabilities and fund balances	\$ 5,391,377	\$ 20,506,741	\$ 723,446	\$ 1,531,010	\$ 386,285

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR FUNDS
June 30, 2003**

	Special Revenue				Total
	State Back-Up Generator Program Fund	Asthma & Brain Cancer Research Fund	Dry Cleaners Financial Incentives Grant Program Fund	Capital Projects Fund	
<u>Assets</u>					
Cash and cash equivalents	\$ 788,163	\$ 1,446,000	\$ 1,830,000	\$ -	\$ 38,020,938
Interest receivable	3,233	4,083	-	-	108,173
Accounts receivable, net	-	-	-	-	1,359,621
Total assets	\$ 791,396	\$ 1,450,083	\$ 1,830,000	\$ -	\$ 39,488,732
<u>Liabilities and fund balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ -	\$ -	\$ 20,000	\$ -	\$ 1,727,620
Due to other funds	-	-	-	-	1,464,640
Total liabilities	-	-	20,000	-	3,192,260
Fund balances:					
Reserved for encumbrances	25,000	-	-	-	5,359,915
Unreserved	766,396	1,450,083	1,810,000	-	30,936,557
Total fund balances	791,396	1,450,083	1,810,000	-	36,296,472
Total liabilities and fund balances	\$ 791,396	\$ 1,450,083	\$ 1,830,000	\$ -	\$ 39,488,732

See independent auditor's report.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR FUNDS
For the Year Ended June 30, 2003

	Special Revenue				
	Air Quality Studies Fund	Air Toxics Fund	Advanced Technology Fund	Air Quality Assistance Fund	Zero Emission Vehicle Incentive Fund
Revenues:					
Air toxics	\$ -	\$ 50,936	\$ -	\$ -	\$ -
State grant	-	-	(11,589)	-	-
Emission reduction fees	-	-	-	-	-
Interest	1,075	45,690	11,912	43,080	38,963
Other	-	(28,691)	-	-	-
Total revenues	1,075	67,935	323	43,080	38,963
Expenditures:					
Contract and special services	-	8,862	231,018	-	915,000
Other operating expenditures	-	(29,478)	(112,605)	(27,950)	120,000
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	36,302	-	-	-
Total expenditures	-	15,686	118,413	(27,950)	1,035,000
Excess (deficiency) of revenues over (under) expenditures before transfers	1,075	52,249	(118,090)	71,030	(996,037)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	1,075	52,249	(118,090)	71,030	(996,037)
Fund balances, June 30, 2002	50,880	1,461,134	528,083	2,291,439	2,072,246
Fund balances, June 30, 2003	\$ 51,955	\$ 1,513,383	\$ 409,993	\$ 2,362,469	\$ 1,076,209

See independent auditor's report.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR FUNDS
For the Year Ended June 30, 2003

	Special Revenue				
	AES Settlement Projects Fund	Rule 1309.1 Priority Reserve Fund	CARB ERC Bank Fund	LADWP Settlement Fund	Natural Gas Vehicle Partnership Fund
Revenues:					
Air toxics	\$ -	\$ -	\$ -	\$ -	\$ -
State grant	-	-	-	-	-
Emission reduction fees	-	13,054,700	-	-	-
Interest	149,154	161,532	16,408	17,534	6,488
Other	-	-	-	-	75,000
Total revenues	<u>149,154</u>	<u>13,216,232</u>	<u>16,408</u>	<u>17,534</u>	<u>81,488</u>
Expenditures:					
Contract and special services	3,375,105	478,121	-	469,992	45,332
Other operating expenditures	-	-	141,050	(22,083)	15,368
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	-	-	-	-
Total expenditures	<u>3,375,105</u>	<u>478,121</u>	<u>141,050</u>	<u>447,909</u>	<u>60,700</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>(3,225,951)</u>	<u>12,738,111</u>	<u>(124,642)</u>	<u>(430,375)</u>	<u>20,788</u>
Other financing sources (uses):					
Transfers in	500,000	-	-	-	-
Transfers out	<u>(500,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(3,225,951)</u>	<u>12,738,111</u>	<u>(124,642)</u>	<u>(430,375)</u>	<u>20,788</u>
Fund balances, June 30, 2002	<u>8,414,814</u>	<u>7,368,630</u>	<u>848,088</u>	<u>874,649</u>	<u>346,872</u>
Fund balances, June 30, 2003	<u>\$ 5,188,863</u>	<u>\$ 20,106,741</u>	<u>\$ 723,446</u>	<u>\$ 444,274</u>	<u>\$ 367,660</u>

See independent auditor's report.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR FUNDS
For the Year Ended June 30, 2003

	Special Revenue				Total
	State Back Up Generator Program Fund	Asthma & Brain Cancer Research Fund	Dry Cleaners Financial Incentives Grant Program Fund	Capital Projects Fund	
Revenues:					
Air toxics	\$ -	\$ -	\$ -	\$ -	\$ 50,936
State grant	5,648,853	-	-	-	5,637,264
Emission reduction fees	-	-	-	-	13,054,700
Interest	16,396	4,948	-	-	513,180
Other	-	1,445,135	-	241,927	1,733,371
Total revenues	5,665,249	1,450,083	-	241,927	20,989,451
Expenditures:					
Contract and special services	475,000	-	190,000	-	6,188,430
Other operating expenditures	-	-	-	-	84,302
Capital outlay	-	-	-	241,927	241,927
Uncollectible accounts	-	-	-	-	36,302
Total expenditures	475,000	-	190,000	241,927	6,550,961
Excess (deficiency) of revenues over (under) expenditures before transfers	5,190,249	1,450,083	(190,000)	-	14,438,490
Other financing sources (uses):					
Transfers in	-	-	2,000,000	-	2,500,000
Transfers out	(4,398,853)	-	-	-	(4,898,853)
Total other financing sources (uses)	(4,398,853)	-	2,000,000	-	(2,398,853)
Net change in fund balances	791,396	1,450,083	1,810,000	-	12,039,637
Fund balances, June 30, 2002	-	-	-	-	24,256,835
Fund balances, June 30, 2003	\$ 791,396	\$ 1,450,083	\$ 1,810,000	\$ -	\$ 36,296,472

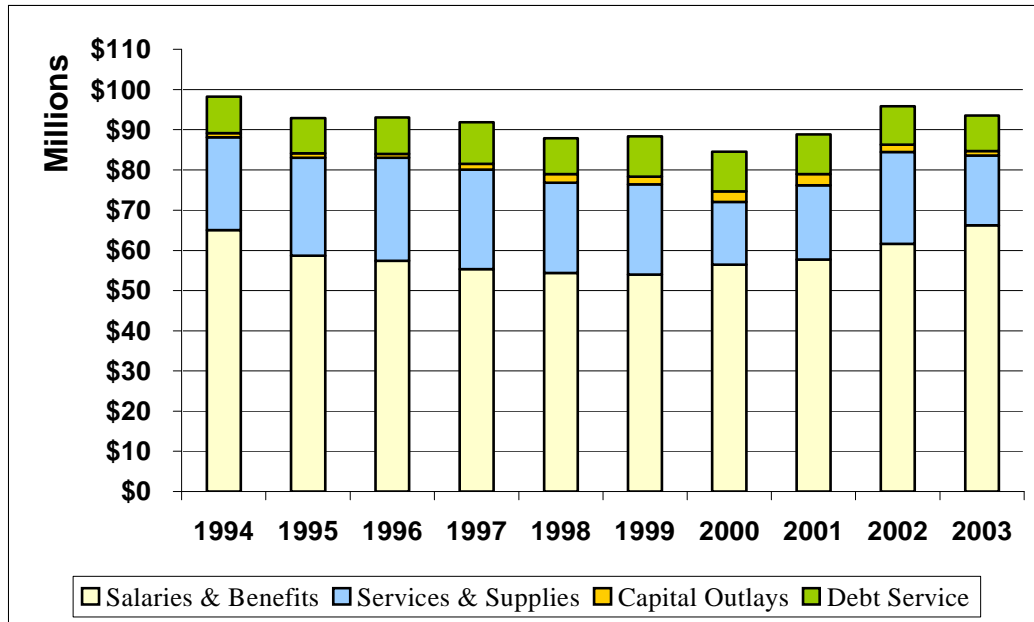
See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2003**

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
<u>General purpose fund</u>				
Assets				
Cash	\$ 5,651,753	\$ 1,400,489	\$ 7,048,483	\$ 3,759
Accounts receivable	902,213	464,298	902,213	464,298
Total assets	<u>\$ 6,553,966</u>	<u>\$ 1,864,787</u>	<u>\$ 7,950,696</u>	<u>\$ 468,057</u>
Liabilities				
Due to others	\$ 6,553,966	\$ 468,057	\$ 6,553,966	\$ 468,057
Total liabilities	<u>\$ 6,553,966</u>	<u>\$ 468,057</u>	<u>\$ 6,553,966</u>	<u>\$ 468,057</u>
<u>SCAQMD Building Corporation fund</u>				
Assets				
Cash	\$ 488,124	\$ 11,649	\$ -	\$ 499,773
Interest receivable	3,198	2,446	3,198	2,446
Total assets	<u>\$ 491,322</u>	<u>\$ 14,095</u>	<u>\$ 3,198</u>	<u>\$ 502,219</u>
Liabilities				
Due to others	\$ 491,322	\$ 14,095	\$ 3,198	\$ 502,219
Total liabilities	<u>\$ 491,322</u>	<u>\$ 14,095</u>	<u>\$ 3,198</u>	<u>\$ 502,219</u>
<u>Total agency funds</u>				
Assets				
Cash	\$ 6,139,877	\$ 1,412,138	\$ 7,048,483	\$ 503,532
Interest receivable	3,198	2,446	3,198	2,446
Accounts receivable	902,213	464,298	902,213	464,298
Total assets	<u>\$ 7,045,288</u>	<u>\$ 1,878,882</u>	<u>\$ 7,953,894</u>	<u>\$ 970,276</u>
Liabilities				
Due to others	\$ 7,045,288	\$ 482,152	\$ 6,557,164	\$ 970,276
Total liabilities	<u>\$ 7,045,288</u>	<u>\$ 482,152</u>	<u>\$ 6,557,164</u>	<u>\$ 970,276</u>

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
EXPENDITURES BY MAJOR OBJECT
GENERAL FUND (BUDGETARY BASIS)
Last Ten Fiscal Years**



Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1994	\$ 65,067,503	\$ 23,051,521	\$ 1,049,013	\$ 9,045,087	\$ 98,213,124
1995	58,674,463	24,296,234	1,106,090	8,759,894	92,836,681
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

Notes:

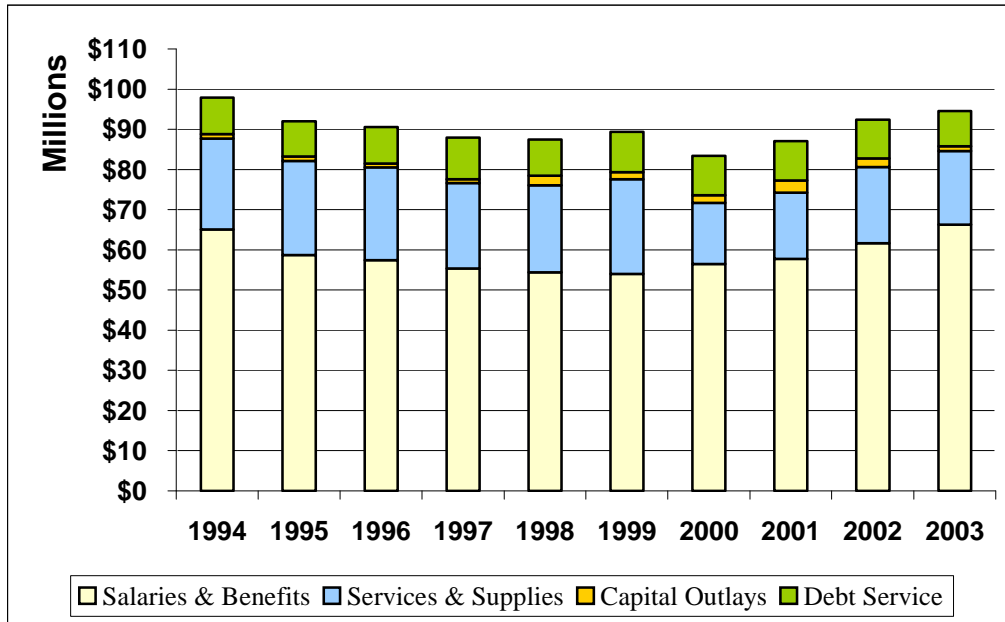
The 2000 and 2002 variances in Debt Service between the Budgetary Basis and the GAAP Basis relates to prior-year encumbrances for lease payments on cargo vans.

Source:

South Coast Air Quality Management District Audited Financial Statements

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
EXPENDITURES BY MAJOR OBJECT
GENERAL FUND (GAAP BASIS)**

Last Ten Fiscal Years



Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1994	\$ 65,067,503	\$ 22,606,253	\$ 1,163,280	\$ 9,045,087	\$ 97,882,123
1995	58,674,463	23,432,563	1,094,369	8,759,894	91,961,289
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

Notes:

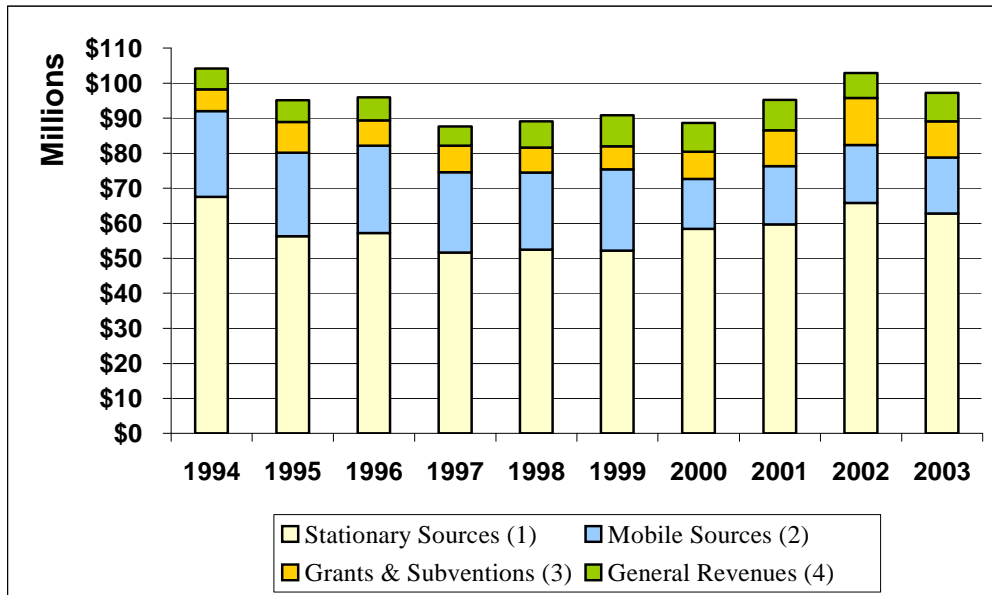
The 2000 and 2002 variances in Debt Service between the Budgetary Basis and the GAAP Basis relates to prior-year encumbrances for lease payments on cargo vans.

Source:

South Coast Air Quality Management District Audited Financial Statements

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
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
1994	\$ 67,493,294	\$ 24,533,549	\$ 6,226,212	\$ 5,854,674	\$ 104,107,729
1995	56,309,661	23,790,303	8,750,276	6,242,214	95,092,454
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

- (1) Includes Emissions, Annual Operating, Permit, Air Toxics, SourceTest/Analysis, and Hearing Board fees
- (2) Includes AB2766 Mobile Source, Clean Fuels, and Transportation Program revenues
- (3) Includes State Subventions and Federal Grants
- (4) Includes Penalties & Settlements, Interest, Lease Revenue , Other Revenue and Subscriptions

Notes:

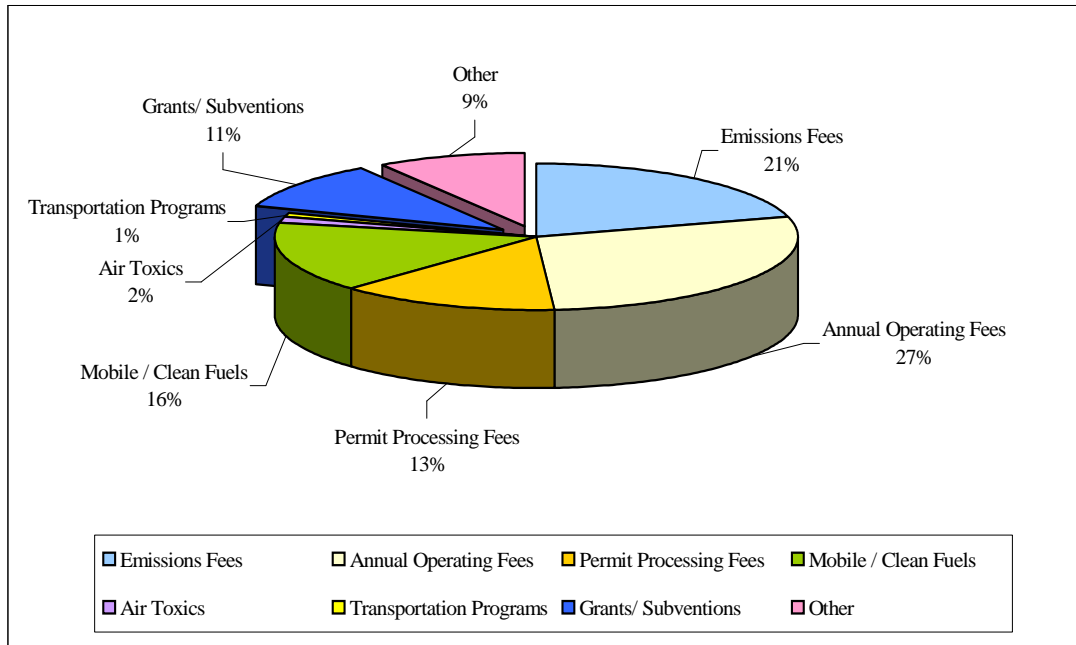
The decrease in Mobile Sources revenue in Fiscal Year 1999-00 is due to the creation of a special Clean Fuels fund in September 1999 once the fund was re-authorized.

There was an increase in Grants & Subventions revenue relating to supplemental compliance grants awarded in FY 2000-01 and FY 2001-02.

Source:

South Coast Air Quality Management District Audited Financial Statements

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
REVENUES BY FEE SOURCE
GENERAL FUND
FY 2002-03**



Fee Source Revenue									
Year	Emissions Fees	Annual Operating Fees	Permit Processing Fees	Mobile / Clean Fuels	Air Toxics	Transportation Programs	Grants/ Subventions	Other	Total
1994	\$31,079,128	\$24,866,103	\$8,964,778	\$22,054,379	\$1,639,423	\$2,479,170	\$6,226,212	\$6,798,536	\$104,107,729
1995	21,774,966	23,397,842	7,109,218	21,939,305	2,696,039	1,850,998	8,750,276	7,573,810	95,092,454
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

Notes:

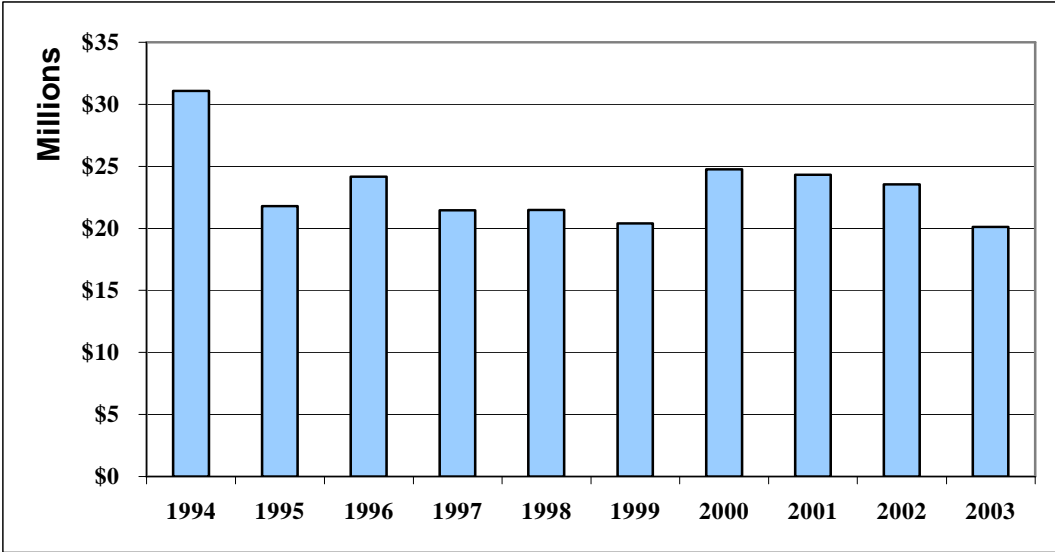
Other includes Penalties and Settlements, Interest, Source Test/Analysis Fees, Lease Revenue, Hearing Board, Other Revenue and Subscriptions

Source:

South Coast Air Quality Management District Audited Financial Statements

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
EMISSION FEE REVENUES**

Last Ten Fiscal Years



Year	Emission Fees
1994	\$ 31,079,128
1995	21,774,966
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

Source: South Coast Air Quality Management District Audited Financial Statements

**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 4,081 square miles, *Los Angeles County* is one of the nation's largest counties. Los Angeles County is the most populated county in the state of California and contains the most populated city in the state, the City of Los Angeles. Between the 1990 and 2000 censuses, Los Angeles County experienced the single largest growth in the state and the second largest growth in the nation.

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 finance and business services, health services, tourism and entertainment, electronics, apparel, retail and wholesale distribution, and international trade.

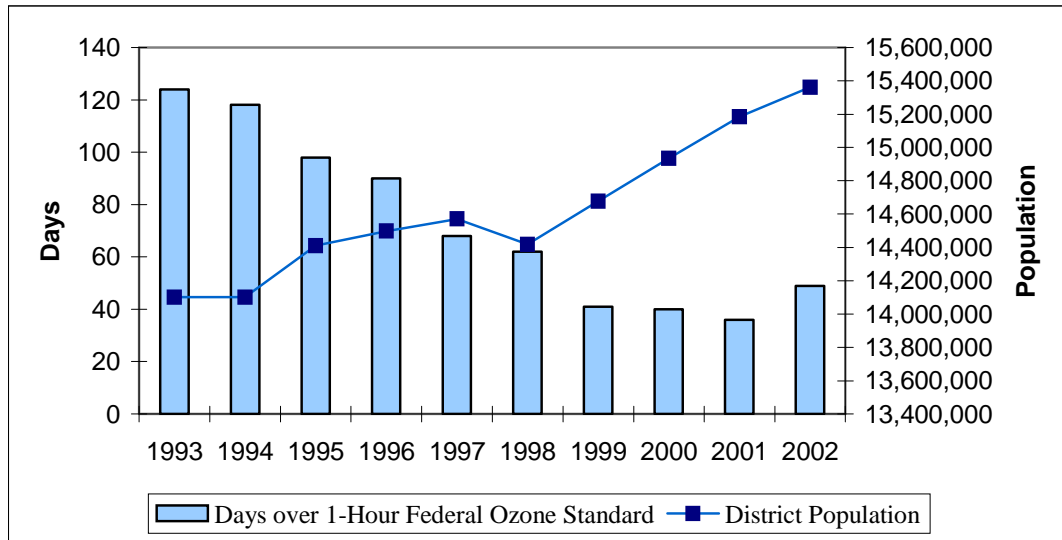
Orange County is the second most populated county in the state and lies south of Los Angeles County. When created in 1889, Orange County was named for its abundance of orange groves and thriving agricultural industry. Today, the economy is dominated by services, trade and manufacturing and numerous industries and service organizations are based here. The county's economy has a diverse high technology sector and has experienced a strong economy in recent years.

Riverside County is the fourth largest county in the state and the varied topography is characterized by fertile river valleys to rolling plains and foothills to deserts below sea level and mountain peaks above 10,000 feet. Riverside County's economy is driven by services, retail trade, government and agriculture. The county is one of the top ten leading agricultural counties in the state and is 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 and have similar economies that are lead by services, retail trade and government. Like Riverside County, San Bernardino County is one of the top ten leading agricultural counties in the state and serves as a major distribution center for Southern California and the Pacific Rim. 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 about the South Coast Air Quality Management District region.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
SOUTH COAST AIR BASIN SMOG TREND
Last Ten Calendar Years



Year	Days over 1-Hour Federal Ozone Standard	District Population
1993	124	14,100,990
1994	118	14,100,990
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

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.

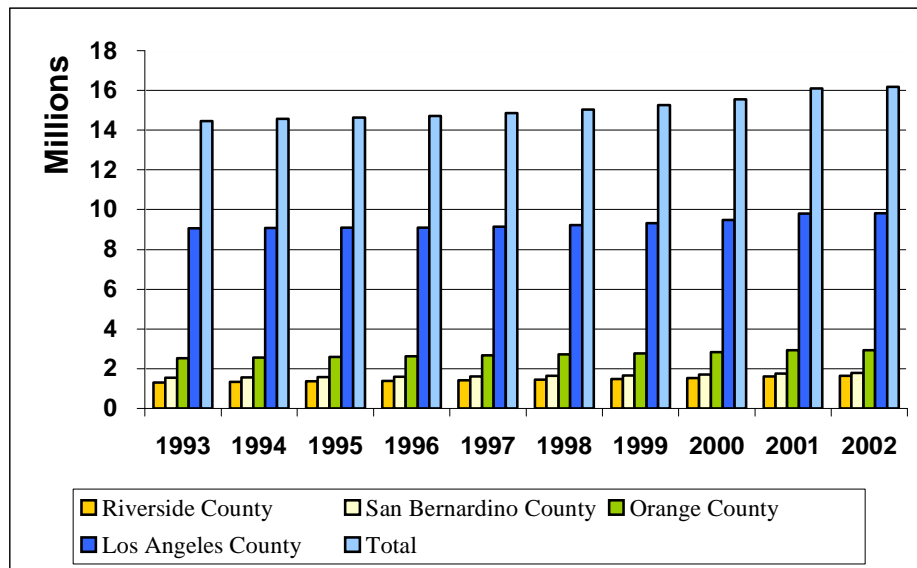
Sources:

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

FOUR-COUNTY AREA POPULATION

Last Ten Calendar Years



Year	Riverside County	San Bernardino County	Orange County	Los Angeles County	Total	% Increase
1993	1,312,300	1,546,400	2,531,100	9,072,200	14,462,000	1.24%
1994	1,340,200	1,561,900	2,563,100	9,095,200	14,560,400	0.68%
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%

Notes:

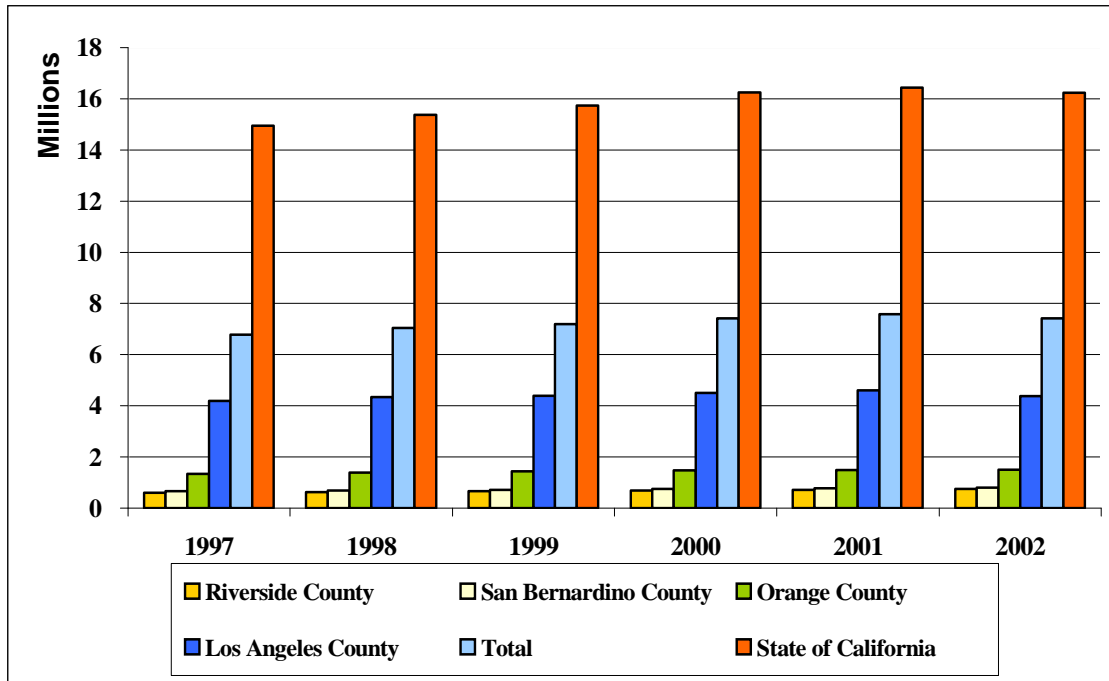
The AQMD encompasses all of Orange County and parts of the Los Angeles, Riverside and San Bernardino Counties, representing over 15 million residents.

Source:

California Department of Finance - Demographic Research Unit

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
LOS ANGELES, ORANGE, RIVERSIDE, SAN BERNARDINO COUNTIES,
AND STATE OF CALIFORNIA CIVILIAN EMPLOYMENT

Last Six Calendar Years



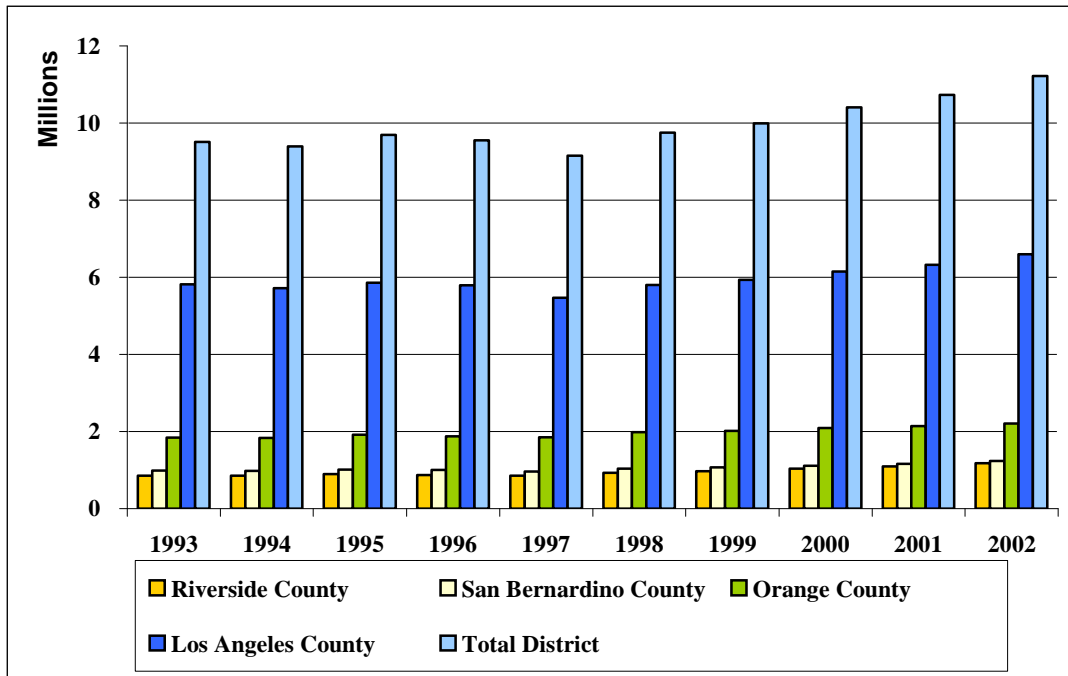
Year	Riverside County	San Bernardino County	Orange County	Los Angeles County	Total	State of California
1997	594,800	664,400	1,339,900	4,184,800	6,783,900	14,942,500
1998	619,600	684,200	1,393,700	4,343,300	7,040,800	15,367,500
1999	658,500	718,000	1,432,700	4,389,300	7,198,500	15,731,700
2000	690,000	752,400	1,472,700	4,506,100	7,421,200	16,245,600
2001	711,500	775,800	1,490,800	4,598,200	7,576,300	16,435,200
2002	745,200	804,100	1,495,100	4,378,100	7,422,500	16,241,800

Sources:

South Coast Air Quality Management District Building Corporation Installment Sale Revenue Bonds
 Refunding Series 2002 for 1997 - 2001 data; California Employment Development Department for 2002 data

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
FEE-PAID VEHICLE REGISTRATIONS (Automobiles & Trucks)
FOR FOUR COUNTY AREA

Last Ten Calendar Years



Year	Riverside County	San Bernardino	Orange County	Los Angeles County	Total District
1993	852,650	993,407	1,847,454	5,815,784	9,509,295
1994	852,912	987,191	1,836,104	5,717,373	9,393,580
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

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 11.1 million for 2001.

Source:

California Department of Motor Vehicles

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>	15,362,284 (In 2002)
<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 Rosebowl
<u>Number of Registered Vehicles:</u>	11,072,249 (In 2002)
<u>Average Daily Vehicle Miles Traveled:</u>	32
<u>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 77,000 permits.
<u>Number of Air Monitoring Stations:</u>	35
<u>SCAQMD Full-time Authorized Positions:</u>	798
<u>Adopted FY 2003-04 Budget:</u>	\$101,613,530
<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.
- 1953 Los Angeles launches nation's first "smoke school" to control visible emissions.
- 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.
- 2002 AQMD adopts phase-out of toxic chemical at dry cleaners.
- 2010 Deadline for achieving current air quality health standards.



**South Coast
Air Quality Management District**

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