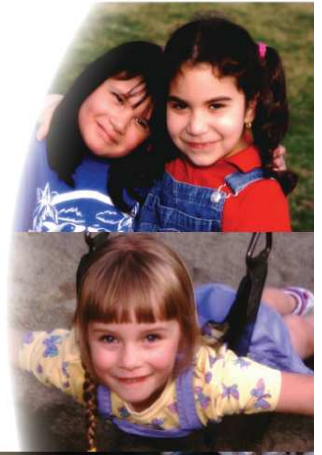
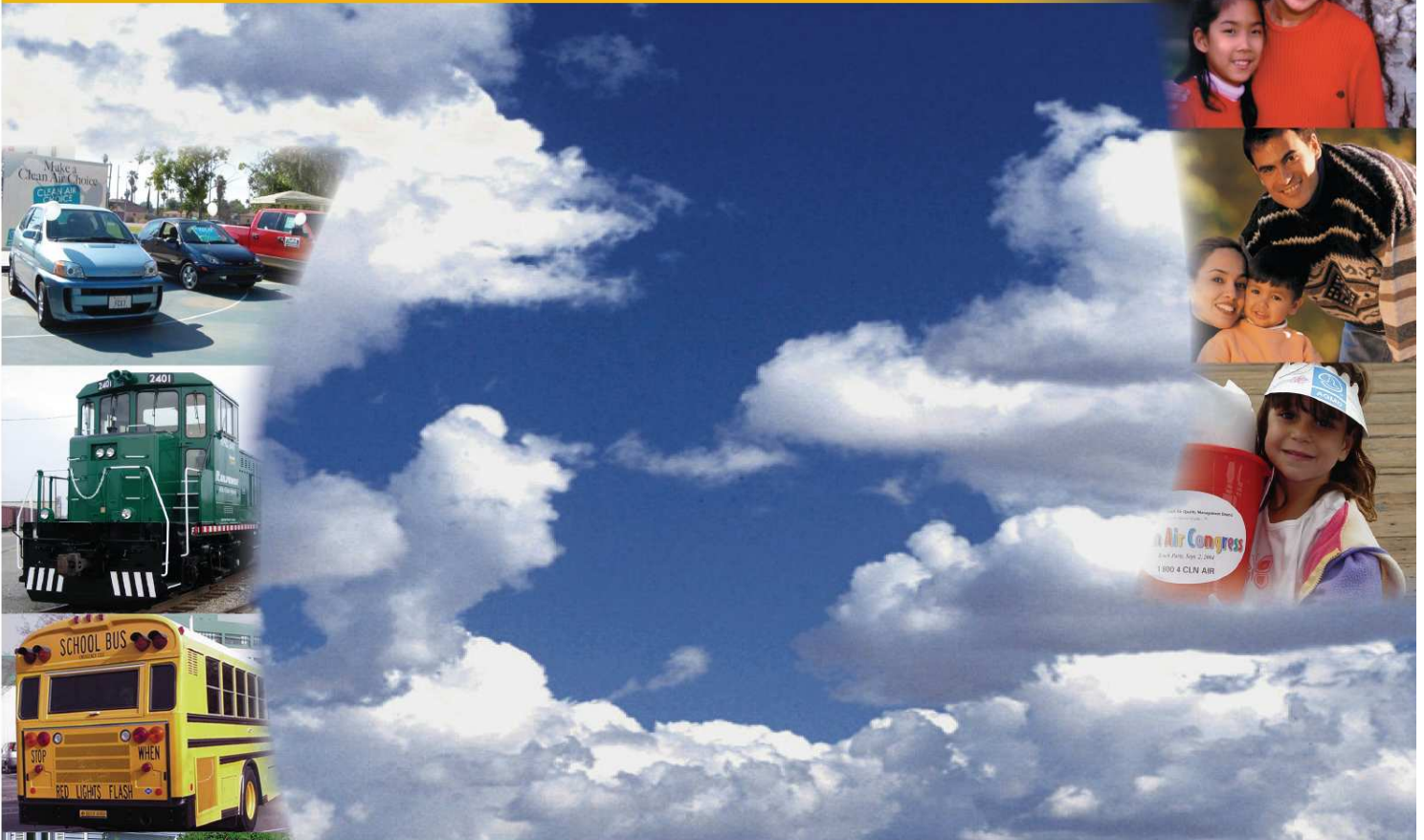


South Coast Air Quality Management District

Diamond Bar, California



Comprehensive Annual Financial Report



Year Ended June 30, 2006





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, 2006

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Comprehensive Annual Financial Report
Year Ended June 30, 2006

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SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

GOVERNING BOARD

June 30, 2006

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

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

MICHAEL D. ANTONOVICH
County of Los Angeles Representative

JAN PERRY
County of Los Angeles
Cities Representative
Western Region

JANE CARNEY
Senate Rules Committee Appointee

MIGUEL A. PULIDO
County of Orange
Cities Representative

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

JAMES W. SILVA
County of Orange Representative

RONALD O. LOVERIDGE
County of Riverside
Cities Representative

CYNTHIA VERDUGO-PERALTA
Governor's Appointee

GARY OVITT
County of San Bernardino Representative

DENNIS YATES
County of San Bernardino
Cities Representative

BARRY R. WALLERSTEIN, D.Env.
Executive Officer



South Coast Air Quality Management District

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

November 8, 2006

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

State law requires that local governments publish within six months of the close of each fiscal year a complete set of audited financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report is published to fulfill that requirement for the fiscal year ended June 30, 2006.

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

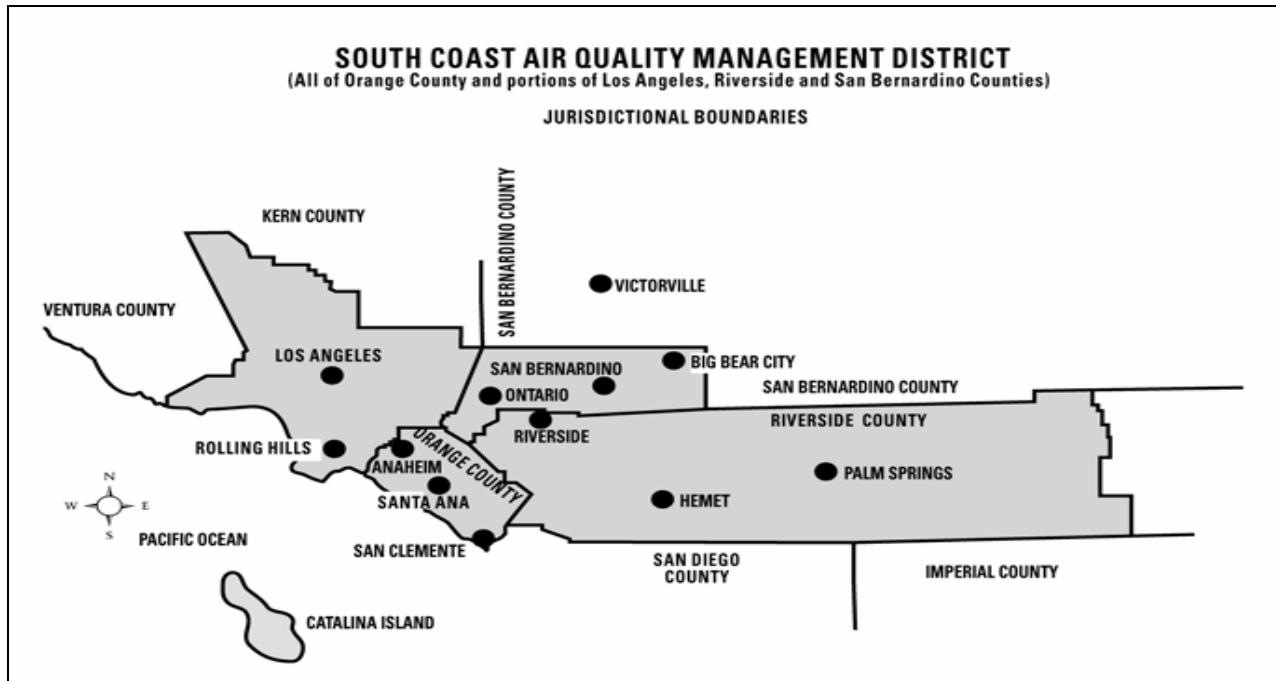
The AQMD's financial statements have been audited by Thompson, Cobb, Bazilio & Associates, Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the AQMD for the fiscal year ended June 30, 2006 are free of material misstatements. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified (clean) opinion that the AQMD financial statements for the fiscal year ended June 30, 2006 are fairly presented in conformity with accounting principles generally accepted in the United States. The independent auditor's report is located at the front of the financial section of this report.

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

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

Profile of the South Coast Air Quality Management District

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



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

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

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

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

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

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

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

Factors Affecting Financial Condition

The AQMD is a fee-supported agency and does not receive sales or property tax support. Approximately 66% of its funding is derived from fees paid by stationary sources that emit air pollution; 18% from auto registration fees collected by the Department of Motor Vehicles and distributed to air districts throughout the state in support of motor vehicle emission reduction programs; 10% from federal and state grants and subventions; and the remainder from general revenues such as penalties/settlements, lease revenue and interest earnings.

To meet its program commitments, despite increased workload complexity, the AQMD has successfully streamlined many of its operations, reducing the cost of its programs. Compared to the 1991-92 fiscal year, 2005-06 expenditures reflect staffing levels that are 31% (361 FTEs) below 1991-92 levels with expenditures \$1.1 million (0.1%) above 1991-92 levels. When adjusted for inflation, this year's expenditures were 30.4% less than the 1991-92 period.

This year's revenues and expenditures represent both significant expenditure savings as a result of higher employee vacancy rates, deferred contract and capital equipment expenditures, and revenues which exceeded estimates due to two significant one-time penalty settlements totaling \$9.2 million. While the AQMD does not recover its activity costs fully from fees, support in the form of state subvention, federal grants, and general revenues offset much of the shortfall.

For fiscal year 2006-07, the employer contribution rates to our pension systems will continue to increase due primarily to a three-year period of low or negative investment returns in pension system portfolios and changes to the actuarial assumptions reflecting AQMD's aging workforce. Beginning January 2006, current and new employees, with the exception of the Office Clerical and Maintenance unit, accepted a shift in the employer pick-up of employee retirement contributions (from the employer to the employee) of 3.25%.

Long-term Financial Planning

Unreserved fund balance in the general fund (46.8 % of total general fund revenues) is above the policy guidelines set by the Board for budgetary and planning purposes (i.e., to maintain an unreserved fund balance at 15% of General Fund revenues). Much of this large balance is due to several significant one-time penalty settlements reached in June 2004, May 2005, January 2006 and May 2006 with air pollution violators which resulted in combined penalties of approximately \$23.6 million to the General Fund. A substantial portion of this unreserved fund balance (69% of the undesignated) is planned for long-term debt reduction in fiscal year 2006-07, thereby reducing AQMD's overall program cost.

Relevant Financial Policies

Cash Management

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

investment policy authorizes investments in United States treasury bills, bonds and notes, obligations issued by agencies of the United States Government, bankers acceptances, commercial paper, medium term notes, certificates of deposit, and the State's Local Agency Investment Fund. The AQMD's portfolio at June 30, 2006 is \$330,449,237.

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

Risk Management

AQMD manages its risks of property and liability losses through a combination of commercial insurance and self-insurance programs. Commercial insurance coverages are obtained with assistance from the experienced insurance brokerage firm of Kaercher Campbell & Associates. AQMD maintains All Risk Property coverage with replacement cost valuation for insurable values of approximately \$122 million and Difference in Conditions coverage (earthquake and flood) with \$25 million in limits.

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 (TPA) to manage claims with a dedicated claims examiner. General, employment and automobile liability claims are handled by Risk Management, District Counsel and AQMD selected legal defense firms. Due to the unpredictability of payments and awards on workers' compensation claims and judgments in tort liability lawsuits, AQMD also maintains excess liability coverage over self-insured retentions for individual workers' compensation claims in excess of \$750,000, employment liability claims in excess of \$100,000 and general 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, risk identification, loss analysis and employee safety training to minimize potential human and property losses, and establish compliance with Cal/OSHA regulations.

Pension Benefits

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

Major Initiatives

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

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

Goods Movement & Air Quality Issues

AQMD's Clean Port Initiative, announced by Chairman William Burke at a special Board meeting in Long Beach in November 2005, includes four guiding principles and seven action items outlining steps that the AQMD, along with federal and state agencies and local and international ports, can take to help reduce port pollution in the region. A work plan to carry out the new initiatives was adopted by the Board in January 2006. The plan calls for the development and adoption this year of AQMD "backstop" rules that would take effect if the ports and other agencies did not take sufficient actions in a timely manner to reduce emissions. Such AQMD rules could:

- ◆ Prohibit emissions increases from new or expanded port facilities unless state-of-the-art pollution controls are used and compensating emission reductions are obtained from other port sources;
- ◆ Limit cancer and other health risks from port facilities; and
- ◆ Reduce port-related emissions to levels needed to achieve air quality standards.

Locomotive Efforts

During the past year AQMD adopted three rules to address emissions from locomotives. In October 2005 the Board adopted Rule 3503 – Emissions Inventory and Health Risk Assessment for Railyards – to require the 19 freight railyards in the Los Angeles Basin to conduct detailed studies of the cancer risks posed to nearby residents from their toxic emissions. Two other rules adopted by the Board in February 2006 address pollution from idling trains. Under Rule 3501, railroads will be required to keep records of all locomotive idling lasting more than 30 minutes. These records will provide information on the amount of emissions from idling trains and assist in identifying ways to reduce these emissions. Trains equipped with an anti-idling device or using alternative technology are exempt from the rule requirements. Rule 3502 is designed to eliminate air pollution from unnecessary idling by prohibiting unattended locomotives from idling more than 30 minutes for crew changes, meal breaks, queuing in railyards or performing maintenance or testing that does not require the train to operate.

Technology Advancement/Accelerated Fleet Turnover

Remote Sensing Program for Passenger Cars: In September 2005 the Board approved a program to conduct remote sensing of one million vehicles in the region. The program will then provide incentives to the owners of the most highly polluting vehicles to either repair, scrap, or replace them. Beginning in 2006, remote sensing devices will be placed in multiple locations throughout

the region to measure a vehicle's emissions. An independent foundation will contact owners of the dirtiest vehicles tested. Residents who meet state low-income guidelines will be eligible to qualify for additional funding. The program is expected to last about 12 months.

Five Cities Hydrogen Demonstration Project: AQMD dedicated the region's first municipal hydrogen fueling stations along with hydrogen-powered Priuses in the first half of 2006. Five cities in the region are partnering with AQMD to demonstrate five hydrogen fueling stations and a total of 30 hybrid Priuses with internal combustion engines that have been modified to burn gaseous hydrogen. The cities include Burbank, Ontario, Riverside, Santa Ana and Santa Monica. Each city and AQMD will operate five hydrogen-fueled Priuses for five years. The five cities program is aimed at stimulating demand for hydrogen fueling, accelerating the expansion of the region's hydrogen fueling network, and educating the public on hydrogen-fueled vehicles. The cities will use the vehicles in everyday city fleet driving as well as showcase them to community groups, neighborhood associations and schools. All five stations are expected to be open by spring 2006.

Lawn Mower and Leaf Blower Exchange Programs: Since 2003, the AQMD has annually conducted a series of lawn mower exchange events, where residents of the South Coast air basin exchanged their operable gasoline-powered lawn mowers for zero-emission cordless electric lawn mowers. A total of 15,560 mowers have been exchanged (4,060 in 2006).

AQMD held its first leaf blower exchange program in February and March 2006 where professional landscapers and gardeners exchanged their gas-powered, backpack blower for a new gas-powered, 4-cycle, low-emission, low-noise model. A total of 1,500 blowers were exchanged at seven locations throughout the region. The new blowers are nearly five times cleaner than CARB's standard for new blowers.

Multiple Air Toxics Exposure Study III (MATES III)

The AQMD started collecting air samples in 2004 for some two dozen toxic air contaminants and four other substances as part of its follow-up to the landmark MATES II study conducted in 1998-1999. The goal of MATES III is to update toxic air pollution levels and toxic emission inventories, and then, through computer modeling, determine the cancer, as well as non-cancer, health risk from air toxics across the region. The study investigates potential toxic "hot spots" in communities. The monitoring frequency during MATES III is double that of MATES II. In addition, a number of compounds related to vehicle emissions are also being measured as possible tracers of exhaust. Monitoring has been ongoing since 2004. However, due to unusually wet weather during the fall and winter months of sampling, the monitoring was extended for one additional year to compare results with a more typical year's meteorology. A draft report is expected by the end of 2006.

Awards and Acknowledgements

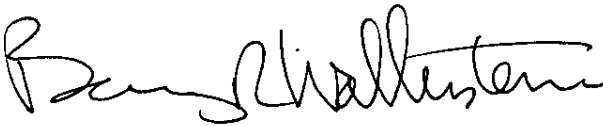
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the South Coast Air Quality Management District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local

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

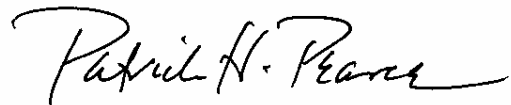
The preparation of our comprehensive annual financial report was made possible by the dedicated services of the accounting, financial analyst and management staff of the Finance Office. These members have our sincere appreciation for the contribution made in the preparation of this report.

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

Respectfully submitted,



Barry R. Wallerstein, D.Env.
Executive Officer



Patrick H. Pearce, CGFM
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

South Coast Air Quality
Management District,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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.



Carla E. Fudge

President

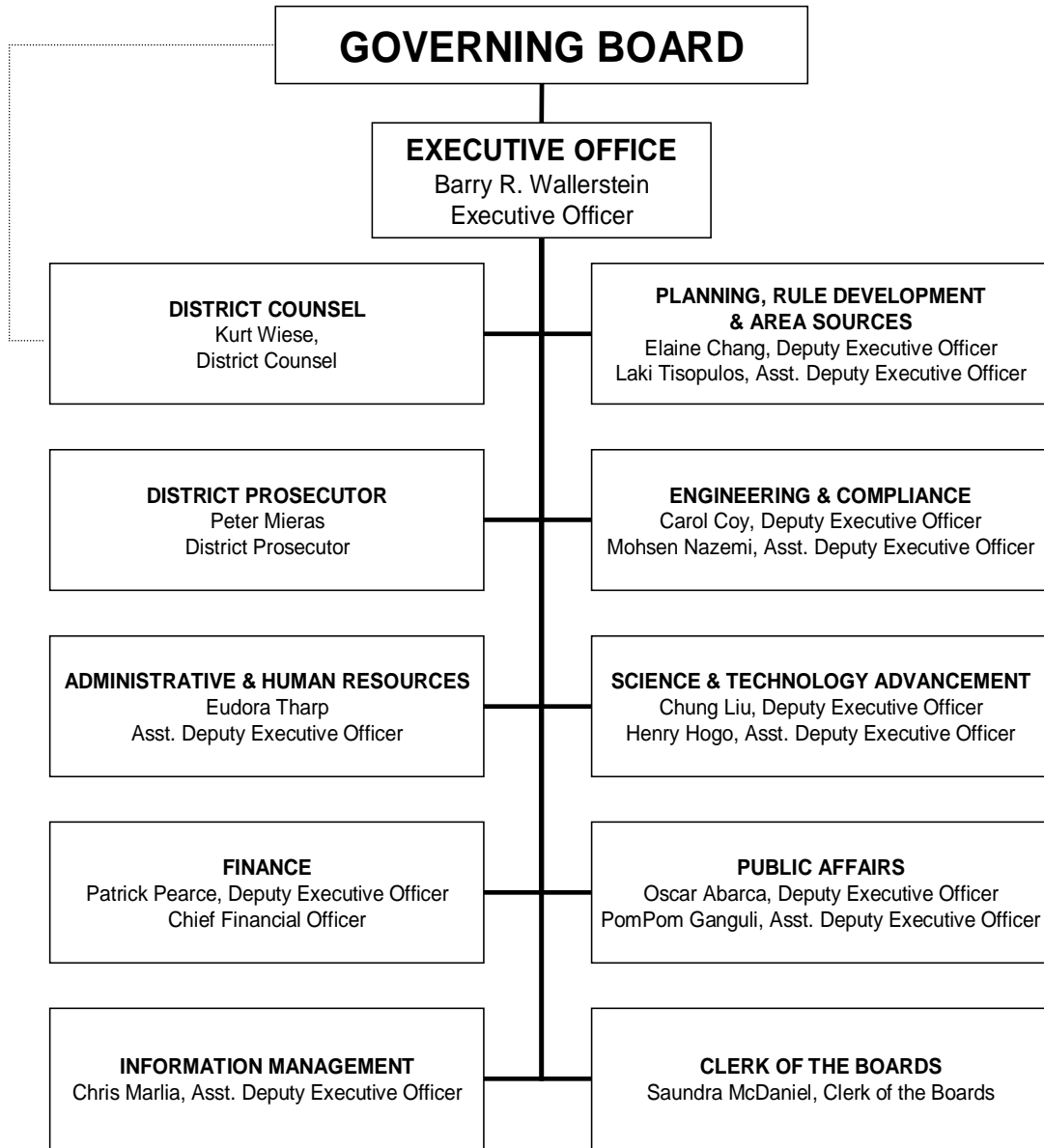
Jeffrey R. Emmer

Executive Director

South Coast Air Quality Management District, California

Organizational Chart

June 30, 2006



THOMPSON, COBB, BAZILIO & ASSOCIATES, PC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT, SYSTEMS, AND FINANCIAL CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the South Coast Air Quality Management District (AQMD), as of and for the year ended June 30, 2006, 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 misstatements. 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, 2006, 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 8, 2006 on our consideration of the AQMD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Torrance, California
November 8, 2006

Thompson, Cobb, Bayliss & Associates, PC

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

As management of the South Coast Air Quality Management District (AQMD), we offer readers of the AQMD's financial statements this narrative overview and analysis of the financial activities of the AQMD for fiscal year ended June 30, 2006. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements, and the accompanying notes to those financial statements.

A. Financial Highlights

- The assets of AQMD exceeded its liabilities at the close of the most recent fiscal year by \$286.7 million (net assets). Of this amount, \$24 million (unrestricted net assets), may be used to finance the AQMD's day-to-day operations.
- The AQMD's total net assets increased by \$45.1 million primarily due to one-time payment of penalties and settlements for air pollution violations, payment of emission reduction fees, and receipt of new grants for Carl Moyer AB 923 and SB 1107 programs.
- As of the close of the fiscal year, the AQMD's governmental funds reported combined ending fund balances of \$315.2 million, an increase of \$41.4 million in comparison to the prior year.
- Of the \$315.2 million combined ending fund balances, \$61.3 million represents the fund balance of the General Fund.
- Out of the total General Fund balance of \$61.3 million at the end of the fiscal year, \$56.5 million represents the unreserved fund balance of which \$14.6 million represents designated uses. The undesignated balance was \$41.9 million, or 38.0 percent of general fund expenditures.
- The AQMD's long term debt decreased by \$6.4 million or 5%.

B. Overview of the Financial Statements

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

In general, the purpose of financial reporting is to provide the external parties that read financial statements with information that will help them make decisions or draw conclusions about an entity. In order to address the needs of as many parties as reasonably possible, the

AQMD, in accordance with required reporting standards, presents government-wide financial statements and fund financial statements.

Government-wide Financial Statements

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

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

The Statement of Net Assets reports all assets held and liabilities owed by the AQMD using the accrual basis of accounting which is similar to the accounting method used by most private sector companies. The difference between assets and liabilities is reported as net assets. Net assets may serve as a useful indicator of AQMD's financial position.

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

The AQMD's Government-wide Financial Statements are presented on pages 20 to 21.

Fund Financial Statements

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

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Non-financial assets such as land and building and long-term liabilities such as pension obligation bonds payable or long term liabilities that will not be paid with current assets are excluded. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statements. Information from the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances is used to facilitate the comparison between governmental funds and governmental activities. The reconciliation between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets can be found on page 23. The reconciliation of the total change in fund balances for all governmental funds to the change in net assets can be found on page 25.

The AQMD maintains 24 individual special revenue funds in addition to the General Fund. 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 17 non-major special revenue funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is reported in the Other Supplementary Information section of this report.

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

The Basic Governmental Fund Statements can be found on pages 22 and 24 of this report.

Proprietary Funds

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

The AQMD's Proprietary Fund Financial Statements for the CNG Fueling Station are presented on pages 26 to 28.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside AQMD. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the AQMD's own programs. The fund financial statements consist of a Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. The accounting used for fiduciary funds is much like that used for proprietary funds.

The AQMD's Fiduciary Fund Financial Statements for the Agency Funds and Retirement Benefit Trust Fund are presented on pages 29 and 30.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Basic Financial Statements can be found on pages 31 to 53 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Required Supplementary Information section concerning the General Fund's budgetary comparison schedule and budgetary reconciliation. The Required Supplementary Information section can be found on pages 54-56 of this report.

Individual fund data for each of the non-major governmental funds is included in the Other Supplementary Information section. This section can be found on pages 57-70 of this report.

C. Government-wide Financial Analysis

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

The schedule below presents a condensed Statement of Net Assets as of June 30, 2006 compared with the prior fiscal year. It should be noted that for FY 2004-05, Net Assets and Other Liabilities for Governmental Activities have been restated from previously issued financial statements to correct a prior year understatement of the current portion of interest due for the 1995 and 2004 Pension Obligation Bonds and the understatement of accrual of the AB 2766 pass-through expenditures. The effect of the restatement is to increase Other Liabilities and decrease Net Assets by \$4,692,249.

	Net Assets (In Thousands)					
	Governmental Activities		Business-Type Activities		TOTAL	
	<u>FY 2005-06</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2004-05</u>
Current and other assets	\$ 355,112	\$ 304,996	\$ 82	\$ 89	\$ 355,194	\$ 305,085
Prepaid pension assets	46,756	46,630	-	-	46,756	46,630
Capital assets	51,908	54,784	313	400	52,221	55,184
Total assets	<u>453,776</u>	<u>406,410</u>	<u>395</u>	<u>489</u>	<u>454,171</u>	<u>406,899</u>
Long-term liabilities outstanding	125,381	131,816	-	-	125,381	131,816
Other liabilities	42,059	33,457	9	7	42,068	33,464
Total liabilities	<u>167,440</u>	<u>165,273</u>	<u>9</u>	<u>7</u>	<u>167,449</u>	<u>165,280</u>
Net Assets:						
Invested in capital assets, net of related debt	7,712	6,049	313	400	8,025	6,449
Restricted	254,604	223,953	-	-	254,677	223,953
Unrestricted	24,020	11,135	73	82	24,020	11,217
Total net assets	<u>\$ 286,336</u>	<u>\$ 241,137</u>	<u>\$ 386</u>	<u>\$ 482</u>	<u>\$ 286,722</u>	<u>\$ 241,619</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 \$286.3 million.

The largest portion of the AQMD's net assets (89%) represents resources that are subject to external restriction on how they may be used. The revenue in special revenue funds is restricted to expenditures for specific purposes. Approximately 3% of the AQMD's net assets reflects its investment in capital assets used by AQMD (e.g. land, buildings, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding. The AQMD uses these capital assets in carrying out its mission of protecting public health while being sensitive to the economic needs of local businesses. Consequently, these assets are not available for future spending. Although the AQMD's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining portion of the AQMD's net assets (8%) is unrestricted which may be used to meet AQMD's ongoing operations and obligations to creditors. At the end of the current fiscal year, the AQMD is able to report positive balances in all three categories of net assets, both for the District as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The net assets for governmental activities increased by \$45.2 million during the current fiscal year. Most of the increase represents the one-time receipt of penalties and settlements for air pollution violations, payment of emission reduction fees, and receipt of new grants from the Carl Moyer AB 923 and SB 1107 programs.

Program revenue increased by \$16.6 million, largely due to emission fee revenue, an increase in Special Fund revenue and a further refinement of non-specific Mobile Source revenue that supports Clean Air Act Activities. General revenue decreased by \$2.3 million, which can be attributed to the mobile source revenue change, and a decrease in Other Revenue, offset by increases in Penalties and Settlements, and Interest.

A condensed Changes in Net Assets schedule for the fiscal year ending June 30, 2006 compared with the prior fiscal year can be found on the the following page.

South Coast Air Quality Management District
Changes in Net Assets
(In Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>TOTAL</u>	
	<u>FY 2005-06</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2004-05</u>
Revenues:						
Program Revenues:						
Fees and charges – stationary sources	\$ 68,792	\$ 64,925	\$ -	\$ -	\$ 68,792	\$ 64,925
Fees and charges – mobile sources	20,992	14,717	-	-	20,992	14,717
Operating grants and subventions	8,035	8,101	-	-	8,035	8,101
Restricted special revenue sources	94,223	87,747	-	-	94,223	87,747
Clean Air Store/CNG fuel sales	-	-	123	97	123	97
General Revenues:						
Grants and subventions – not restricted to specific programs	2,963	2,965	-	-	2,963	2,965
Mobile sources – not restricted to specific programs	-	6,283	-	-	-	6,283
Penalties and settlements	16,074	11,296	-	-	16,074	11,296
Interest	2,887	1,274	-	-	2,887	1,274
Other revenues	930	3,361	-	-	930	3,361
Total revenues	<u>214,896</u>	<u>200,669</u>	<u>123</u>	<u>97</u>	<u>215,019</u>	<u>200,766</u>
Expenses:						
Advance clean air technology	5,809	5,012	-	-	5,809	5,012
Ensure compliance with clean air rules	36,727	37,666	-	-	36,727	37,666
Customer service	11,593	10,532	-	-	11,593	10,532
Develop programs to achieve clean air	7,812	7,106	-	-	7,812	7,106
Develop rules to achieve clean air	8,046	8,130	-	-	8,046	8,130
Monitoring air quality	11,794	11,592	-	-	11,794	11,592
Permit review	23,192	21,404	-	-	23,192	21,404
Policy support	2,948	2,955	-	-	2,948	2,955
Special funds activities	64,309	59,526	-	-	64,309	59,526
Other expenses	-	-	202	165	202	165
Total expenses	<u>172,230</u>	<u>163,923</u>	<u>202</u>	<u>165</u>	<u>172,432</u>	<u>164,088</u>
Increase (decrease) in net assets, before transfers	<u>42,666</u>	<u>36,746</u>	<u>(79)</u>	<u>(68)</u>	<u>42,587</u>	<u>36,678</u>
Transfers	<u>17</u>	<u>-</u>	<u>(17)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets, June 30, 2006	<u>\$ 42,683</u>	<u>\$ 36,746</u>	<u>\$ (96)</u>	<u>\$ (68)</u>	<u>\$ 42,587</u>	<u>\$ 36,678</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 2005-06. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

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

There was an increase in program revenues in the restricted special revenue sources. The program revenues in the Restricted Special Revenue Sources category are made up of revenues from several special revenue funds. Following are explanations of the significant revenue variances from FY 2004-05 to FY 2005-06:

- **Carl Moyer Fund** was established to account for the money received from the California Air Resources Board (CARB) and the Department of Motor Vehicles (DMV) to provide funds on an incentive basis for the incremental cost of cleaner-than-required engines and equipment. Revenue in this fund increased by \$11.3 million which was due to receiving a full year of AB 923 revenue and increased interest earnings. AB 923 legislation was enacted in FY 2004-05 that assessed an additional \$2 fee per car registration in the District for Carl Moyer-type projects. The amount collected in FY 2004-05 represents fee revenue for only May & June 05 (the first two months of collections) and the amount collected in FY 2005-06 represents a full 12 months. The increase in interest earnings can be attributed to higher cash balances in the fund along with an approximate 2% increase in the rate of return.
- **Clean Fuels Fund** in FY 2005-06 revenue in this account increased by \$2 million due to a decrease in transfers to the General Fund for clean fuels-related staff work. In FY 2004-05, \$1.6 million was transferred to the General Fund for staff work from prior fiscal years that had not been previously reimbursed.
- **Mobile Source Air Pollution Reduction Fund** in FY 2005-06, revenue increased by \$0.78 million as result of an increase in interest earnings which can be attributed to higher cash balances in the fund along with an approximate 2% increase in the rate of return. This fund is used to account for 30 percent of the vehicle registration fees received by the AQMD under the provisions of Sections 44243 and 44244 of the California Health and Safety Code. The revenue received is to be used to provide contracts/grants to fund projects for the purpose of reducing air pollution from motor vehicles in the South Coast Basin.

- **Lower Emission School Bus Fund** in FY 2005-06, revenue increased by \$3.8 million as result of new grant funding. In FY 2005-06, lower emission school bus grant funding of \$5.4 million was received from the state to retrofit school buses with PM trap filters and an EPA grant of \$0.2 million was received to replace school buses and retrofit school buses with PM trap filters. In addition, a program that was funded in FY 2004-05 with state Proposition 40 funding to replace older school buses with CNG buses had ended prior to FY 2005-06.
- **Rule 1309.1 Priority Reserve Fund** in FY 2005-06, revenue increased by \$14 million and can be attributed to one large fee of \$13.3 million that was received from GE Energy for the purchase of emission reduction credits (ERCs) needed for a permit to construct an electrical generating facility in the South Coast District. In FY 2004-05, there were no purchases of ERCs in the fund. The remaining increase in revenue is due to an increase in interest earnings which can be attributed to higher cash balances in the fund along with an approximate 2% increase in the rate of return.

Business-type Activities

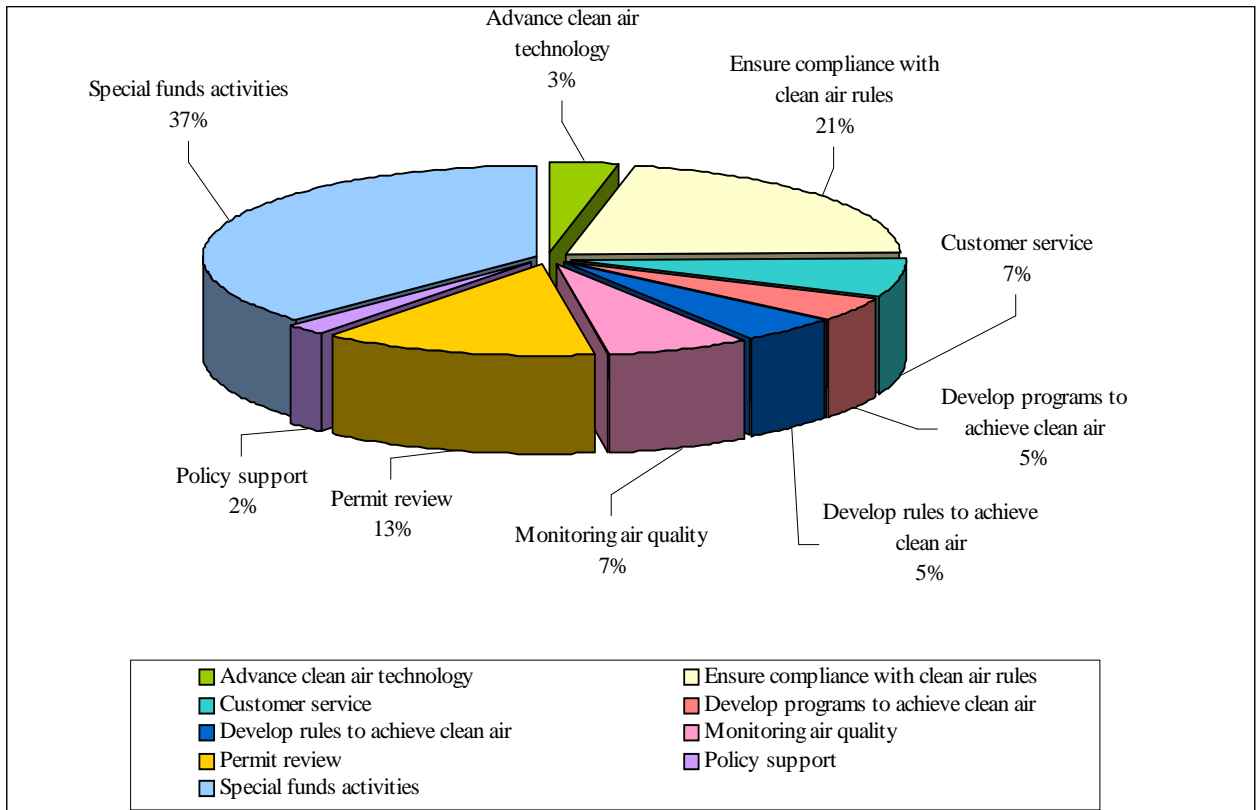
The Business-type Activities section reports transactions relating to the CNG fueling station. The CNG fueling station expenditures are reported on a cash basis and are offset by sales. The net assets of the business-type activities decreased by \$96,000 from \$482,000 to \$386,000. The decrease is primarily due to the closure of the Clean Air Store and the depreciation of the Business-type Activities capital assets.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

EXPENSES BY ACTIVITY

Governmental Activities

FY 2005-06



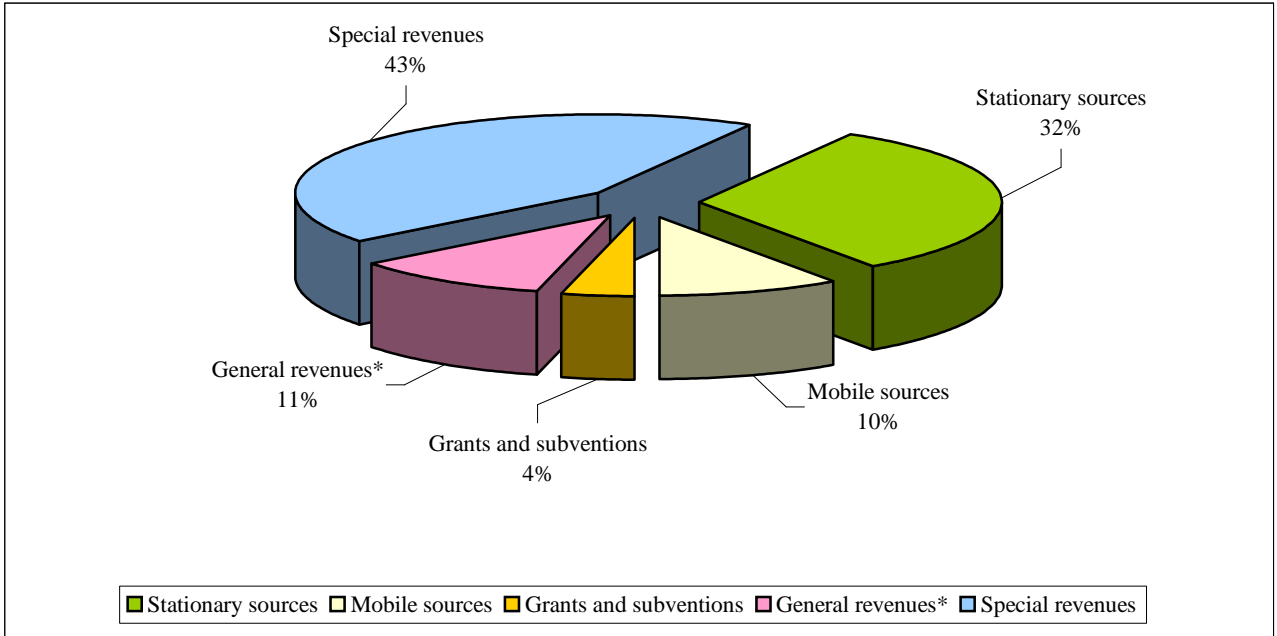
Activity	FY 05-06	FY 04-05	FY 03-04	FY 02-03	FY 01-02
Advance clean air technology	\$ 5,808,530	\$ 5,011,874	\$ 7,255,854	\$ 5,933,504	\$ 4,509,988
Ensure compliance with clean air rules	\$ 36,727,226	37,666,189	38,536,722	33,440,503	33,020,627
Customer service	\$ 11,592,984	10,532,066	10,965,904	10,035,584	9,557,298
Develop programs to achieve clean air	\$ 7,811,791	7,106,133	7,910,778	6,213,755	5,654,636
Develop rules to achieve clean air	\$ 8,046,177	8,130,305	7,915,483	6,563,362	6,618,208
Monitoring air quality	\$ 11,794,227	11,591,430	11,883,527	10,032,083	9,889,813
Permit review	\$ 23,191,423	21,403,924	21,408,261	18,937,964	20,714,836

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

REVENUES BY MAJOR SOURCE

Governmental Activities

FY 2005-06



Source	FY 05-06	FY 04-05	FY 03-04	FY 02-03	FY 01-02
Stationary sources	\$ 68,792,294	\$ 64,925,373	\$ 61,932,425	\$ 62,835,710	\$ 65,737,827
Mobile sources	20,991,833	14,716,865	10,787,342	10,245,290	10,272,434
Grants and subventions	8,035,387	8,100,573	9,679,283	7,434,924	10,434,312
General revenues*	22,853,273	25,178,600	23,479,027	16,732,092	16,429,959
Special revenues	94,223,386	87,747,227	60,731,099	81,194,075	118,891,866
Total	\$ 214,896,173	\$ 200,668,638	\$ 166,609,176	\$ 178,442,091	\$ 221,766,398

* General Revenues include Penalties/Settlements, Interest, 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)

	<u>FY 2005-06</u>	
	Total Cost of Program <u>Activities</u>	Net Cost of Program <u>Activities</u>
Advance clean air technology	\$ 5,809	\$ 1,102
Ensure compliance with clean air rule	36,727	(1,711)
Customer service	11,593	(512)
Develop programs to achieve clean air	7,812	(206)
Develop rules to achieve clean air	8,046	(392)
Monitoring air quality	11,794	(209)
Permit review	23,192	(8,042)
Policy support	2,948	(131)
Special funds activities	64,309	29,914
Total	\$ <u><u>172,230</u></u>	\$ <u><u>19,813</u></u>

The program activities are described as follows:

- **Advance Clean Air Technology** – Identify technologies from anywhere in the world that may have application in reducing emissions from mobile and stationary sources in the AQMD's jurisdiction.
- **Ensure Compliance with Clean Air Rules** – Perform inspections, source tests, emissions audits and respond to and resolve public complaints to ensure compliance with AQMD rules.
- **Customer Service** – Provide local government, business, and the public with access and input into the regulatory and policy processes of the AQMD. Assist cities and others with AB 2766 projects. Interact with local, state and federal agencies and others to share air quality information, resolve jurisdictional questions, and implement joint programs. Implement comprehensive public information, legislative and customer service programs.
- **Develop Programs to Achieve Clean Air** – Develop a regional Air Quality Management Plan (AQMP) to achieve federal and state ambient air quality standards and to meet all other requirements of the federal and California Clean Air Acts.

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

D. Financial Analysis of the AQMD's Funds

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

Governmental Funds

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

As of the end of the fiscal year, the AQMD's governmental funds reported combined ending fund balances of \$315.2 million, an increase of \$41.4 million in comparison with the prior year. Approximately 81% of these fund balances (\$253.9 million) constitutes the portion pertaining to special revenue funds. Expenditures under these funds are restricted for specific purposes. The long-term contractual commitments related to these special fund programs, such as replacement of diesel-fueled school buses, involve multiple-year spending.

- **The General Fund** is the operating fund of the AQMD. At the end of the fiscal year, the total fund balance of the General Fund was \$61.3 million. The unreserved fund balance was \$56.5 million; designations were \$14.6 million or 24.0%. 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. The unreserved fund balance (designated and undesignated combined) represents 52% of total General Fund expenditures, while total fund balance represents 56% of the total General Fund expenditures. In the General Fund, the unreserved fund balance may serve as a useful measure of the AQMD's net resources available for spending at the end of the fiscal year.

In a continued effort to more fully recover the cost of the AQMD programs, fee rates for FY 2005-06 were increased by 6%. In addition, selected Hearing Board fees for excess emission fees were increased to more fully recover Hearing Board costs. Overall, the FY 2005-06 adopted budget represented a \$2.8 million (2.7%) increase over the FY 2004-05 adopted budget. The adopted budget included a 3% salary savings, which represents 23 unfilled positions; a proposal to unfund five positions; and an increase of approximately \$1.1 million in services, supplies, and equipment budget. The adopted budget relied on \$850,850 from the Undesignated Fund Balance to balance the budget. On a budgetary basis, actual FY 2005-06 General Fund revenues exceeded expenditures by \$11.3 million.

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

- **Mobile Sources Air Pollution Reduction Fund** – The fund balance showed an increase compared with the prior year due to increased revenue in FY 2005-06. Revenues exceeded expenditures because many of the contracts executed in this special revenue fund are multi-year and the projects are often long-term and expenditures can vary significantly from year to year.
- **Clean Fuels Program Fund** – The fund balance showed a decrease compared with the prior year due to expenditures exceeding revenues in FY 2005-06. Many of the contracts executed in this special revenue fund are multi-year and the projects are often long-term and expenditures can vary significantly from year to year.
- **Carl Moyer Program Fund** – The fund balance increased due to an increase revenues received in FY 2005-06. The revenue increase can be attributed to new legislations (AB 923 and SB 1107), which began late in FY 2004-05. In FY 2004-05 only two months of AB 923 revenue was collected, where as, in FY 2005-06 there were a full 12 months of collections. In addition, most projects in this fund cover multiple fiscal years and expenditures can vary significantly from year to year.
- **Rule 1309.1 Priority Reserve Fund** – The fund balance increase can be attributed to an electric generating facility paying \$13.3 million for the purchase of emission reduction credits (ERCs) needed for a permit to construct an electrical generating facility in the South Coast District. The ERCs are required to offset the increased emissions from generating additional megawatts on a new facility.

Proprietary Funds

As noted earlier, the AQMD's proprietary fund statements provide the same type of information found in the government-wide financial statements but in more detail. A Statement of Cash Flows is included in the Proprietary Fund Statement.

E. General Fund Budgetary Highlights

The FY 2005-06 adopted budget compared to the amended budget reflects an increase in appropriations of \$11.9 million. The changes to the budget were the result of Governing Board actions that allocated additional funding after the budget was adopted. Also, changes can be attributed to Governing Board-approved transfers from other funds and the use of a portion of Undesignated Fund Balance for program needs that were unknown at the time the budget was developed.

Additional funding was received and appropriated in Fiscal Year 2005-06 from the following agencies:

EPA - \$2,357,000 for the following programs: truck stop electrification projects, Photochemical Assessment Monitoring Stations (PAMS), PM 2.5 Monitoring, Special Particulate Air Monitoring Program, and the National Air Toxics Monitoring Program.

Department of Defense - \$596,000 to demonstrate feasibility to measure low-level pollutant concentrations.

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

Clean Fuels Fund - \$1,451,000 was allocated for various Clean Fuels program activities such as the purchase of hybrid vehicles to convert into plug-in hybrid vehicles, the Multiple Air Toxics Exposure Study (MATES III), technical assistance, expert consultations, public outreach, technical conference sponsorship, and advance technology vehicle leases.

Air Toxics "Hot Spots" Fund - \$125,000 was transferred for the continuation of privatization of portions of the Annual Emissions Reporting (AER) program.

Air Quality Investment Fund - \$116,000 was transferred for the outreach and administrative expenses of the Mow Down Air Pollution Program 2006, which exchanged gas-powered lawn mowers with electric mowers.

Designation for Litigation and Enforcement - \$1,150,000 was allocated for outside counsel to represent and advise both AQMD and AQMD Hearing Board on legal matters related to environmental law.

Designation for Facility Refurbishing - \$110,000 was allocated for boiler repairs at the AQMD Diamond Bar Headquarters.

The remaining \$5,994,000 increase can be attributed to transfers from the Undesignated Fund Balance for employee relations litigation and negotiation services, to organize and conduct the February 2006 Asthma Conference, to determine the feasibility of using remote sensing technology to measure locomotive emissions, new labor agreements for the AQMD staff and Board Assistants, and an amendment to Hearing Board compensation.

For FY 2005-06, actual revenues exceeded the final budget by \$12,897,000 or 12% and expenditures savings were \$7,657,000 or 6.5%.

The main reason that actual revenue exceeded the final revenue budget was due to several large cash penalties/settlements that were not anticipated at the time the FY 2005-06 budget was prepared which included penalty settlements from several refineries totaling over \$9.2 million. In addition, during FY 2005-06 the Federal Reserve raised interest rates several times, which along with increased cash balances resulted in interest earnings exceeding the FY 2005-06 projected interest revenue. Other factors included: a new state grant, Carl Moyer SB 1107 which was not budgeted in FY 2005-06. AB 2766 mobile source revenue came in above budgeted levels due to an increase in vehicle registrations, and revenue from federal grants/awards received during the fiscal year were not realized due to the late receipt of the EPA Section 105 PAMS grant.

The continued economic constraints facing the AQMD have necessitated expenditure reductions, such as not filling all authorized vacant positions. In addition, savings were achieved by delaying budgeted contract work to the following year, and efficiencies gained by a policy change in Public Notice and Advertising. The savings in the capital outlay account were due to expenditures coming in lower than estimated with the purchases of some items being deferred until FY 2006-07. In addition, the expenditures appropriated for the EPA Section 105 PAMS grant which arrived in May 2006 were not entirely spent. The unspent portion of the EPA Section 105 PAMS grant was deferred and spent in the first quarter of FY 2006-07.

F. Capital Assets and Debt Administration

Capital Assets

The AQMD's investment in capital assets is mostly for its governmental activities. The book value was \$51.9 million (net of accumulated depreciation of \$51.6 million) as of June 30, 2006. This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, and AQMD fleet vehicles.

The increase in capital assets primarily reflects increased spending during the fiscal year for the replacement of a portion of the aging AQMD vehicle fleet.

Additional information on the capital assets can be found in the Notes to Financial Statements on page 45.

Long-Term Debt

At the end of the current fiscal year, the AQMD had a total long-term debt outstanding of \$125.4 million, including the current portion of \$8.6 million. Of this amount, \$44.2 million represents the Installment Sale Revenue Bonds issued by the AQMD Building Corporation (Corporation) and the AQMD is required to make debt service payments. This is in accordance with the Installment Purchase Agreement between the Corporation and the AQMD. The amount of \$67.5 million represents the Pension Obligation Bonds. The 1995 series (outstanding balance of \$21.4 million) and \$46 million issued as of June 2004 retired the Unfunded Actuarial Accrued Liability due to San Bernardino County Employees Retirement Association as of June 30, 2004. Other long-term debt includes general claims and workers' compensation claims payable of \$1.4 million and compensated absences of \$12.3 million.

Additional information on the AQMD's long-term debt can be found in Note VI to the Basic Financial Statements on pages 46-49 of this report.

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

The FY 2006-07 expenditure budget increases by 1.8% compared to the FY 2005-06 amended budget. The budget reflects an increase of \$2.1 million in expenditures from the FY 2005-06 amended budget and a \$14.0 million increase over the FY 2005-06 Adopted Budget. This budget request includes the full cost increase associated with new labor agreements (the FY 2005-06 Budget included only six months of salary and benefit increases for most employees), which in the long term will reduce the agency's overall retirement cost by shifting a portion of the cost of retirement to its employees and reducing retirement benefits for new employees.

In recent years, AQMD's revenues have not kept pace with program costs. Increases in retirement rates as the result of market losses to the retirement system and court decisions which have increased benefits to employees and retirees, increasing expenditures. Emission fees revenues have been decreasing reflecting lower emissions as a result of additional emission controls placed on the Basin's emitters. In order to finance the FY 2006-07 Budget, a 30% cost recovery fee increase phased in over three years (10 percent annually) is included to recover the program cost supported by permit processing fees, annual operating and emissions fees, and a 3.65% increase for all other stationary source fees. Estimated revenues for FY 2006-07 are \$117.1 million, which with the addition of approximately \$2.0 million from the undesignated fund balance brings funding in balance with expenditures.

Moreover, since FY 1991-92, the AQMD has reduced staffing and program costs despite increased program requirements. The FY 2006-07 expenditure budget is \$119.1 million and includes 804 authorized positions. Compared to FY 1991-92, this reflects 32% less staffing. Program costs, however, will exceed by \$6.1 million (approximately 5.4%) the 1991-92 Budget, which is the first time the FY 1991-92 Budget has been exceeded in 15 years. Using inflation adjusted dollars, however, this year's budget request is 36.1% less than the budget approved in FY 1991-92.

H. Requests for Information

This financial report is designed to provide a general overview of the AQMD's finances for readers of the financial statements. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, South Coast Air Quality Management District, 21865 Copley Drive, Diamond Bar, CA 91765-4182.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

<u>Assets</u>	Primary Government			Component Unit
	Governmental Activities	Business- type Activities	Total	SCAQMD Building Corporation
Current Assets:				
Cash and cash equivalents	\$ 314,156,325	\$ 81,465	\$ 314,237,790	\$ 965,292
Investments	14,000,000	-	14,000,000	-
Interest receivable	3,785,370	-	3,785,370	649,525
Due from other governmental agencies	20,984,166	-	20,984,166	-
Accounts receivable, net	2,136,476	-	2,136,476	-
Inventories	49,856	-	49,856	-
Other assets	-	-	-	402,654
Total current assets	355,112,193	81,465	355,193,658	2,017,471
Noncurrent Assets:				
Prepaid pension assets	46,756,200	-	46,756,200	-
Capital assets:				
Land	8,829,792	-	8,829,792	-
Depreciable building and improvements and equipment, net	43,077,623	313,177	43,390,800	-
Total capital assets	51,907,415	313,177	52,220,592	-
Total noncurrent assets	98,663,615	313,177	98,976,792	-
Total assets and other debits	453,775,808	394,642	454,170,450	2,017,471
Liabilities				
Current Liabilities:				
Accounts payable and accrued liabilities	22,224,150	8,518	22,232,668	6,237
Interest payable	2,130,999	-	2,130,999	649,525
Salaries and benefits payable	4,773,284	-	4,773,284	-
Unearned revenue	12,930,171	-	12,930,171	-
Long term debt - due within one year	8,589,687	-	8,589,687	-
Total current liabilities	50,648,291	8,518	50,656,809	655,762
Noncurrent Liabilities:				
Long term debt - due in more than one year	116,791,753	-	116,791,753	-
Total noncurrent liabilities	116,791,753	-	116,791,753	-
Total liabilities	167,440,044	8,518	167,448,562	655,762
Net Assets				
Investment in capital assets, net of related debt	7,712,415	313,177	8,025,592	-
Restricted for:				
Pension assets	736,200	-	736,200	-
Special projects/programs	253,867,453	-	253,867,453	-
Unrestricted	24,019,696	72,947	24,092,643	1,361,709
Total net assets	\$ 286,335,764	\$ 386,124	\$ 286,721,888	\$ 1,361,709

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006**

Functions/ Programs	Expenses	Program Revenues				Net	
		Fees and Charges		Operating Grants and Subventions	Restricted Special Revenues Sources *		Governmental Activities
		Stationary Sources	Mobile Sources				
Primary Government:							
Governmental Activities:							
Advance clean air technology	\$ 5,808,530	\$ 264,777	\$ 5,630,807	\$ 1,014,827	\$ -	\$ 1,101,881	
Ensure compliance with clean air rules	36,727,226	29,914,253	1,720,950	3,381,285	-	(1,710,737)	
Customer service	11,592,984	8,308,945	2,558,726	212,867	-	(512,445)	
Develop programs to achieve clean air	7,811,791	3,343,181	4,011,673	250,750	-	(206,187)	
Develop rules to achieve clean air	8,046,177	6,361,037	1,126,994	165,836	-	(392,310)	
Monitoring air quality	11,794,227	3,384,086	5,248,441	2,952,990	-	(208,710)	
Permit review	23,191,423	15,092,921	-	56,832	-	(8,041,670)	
Policy support	2,948,274	2,123,094	694,241	-	-	(130,940)	
Special funds activities	64,308,902	-	-	-	94,223,386	29,914,484	
Total governmental activities	<u>172,229,535</u>	<u>68,792,294</u>	<u>20,991,833</u>	<u>8,035,387</u>	<u>94,223,386</u>	<u>19,813,366</u>	
Business-type Activities:							
Clean Air Store	3,653	-	-	-	-	-	
CNG fueling station	198,788	-	-	-	-	-	
Total business-type activities	<u>202,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total primary government	<u>\$ 172,431,976</u>	<u>\$ 68,792,294</u>	<u>\$ 20,991,833</u>	<u>\$ 8,035,387</u>	<u>\$ 94,223,386</u>	<u>\$ 19,813,366</u>	
Component Unit:							
SCA QMD Building Corporation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total component unit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
General Revenues:							
Grants and subventions - not restricted to specific stationary source programs						2,962,539	
Mobile sources - not restricted to specific mobile source programs						-	
Interest						2,887,395	
Lease revenue						364,326	
Penalties/ settlement						16,074,370	
Subscriptions						19,214	
Other						545,430	
Clean Air Store/CNG fuels sales						-	
Total general revenues						<u>22,853,273</u>	
Change in net assets before transfers						42,666,638	
Other financial sources:							
Transfer in (out)						16,595	

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2006**

<u>Assets</u>	<u>General</u>	<u>Air Quality Improvement Fund</u>	<u>Mobile Sources Air Pollution Reduction Fund</u>	<u>Air Quality Investment Fund</u>	<u>Clean Fuels Program Fund</u>	<u>Carl Moyer Program Fund</u>	<u>Rule 1309.1 Priority Reserve Fund</u>	<u>BP ARCO Settlement Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 71,405,797	\$ 1,597,372	\$ 42,512,505	\$ 26,960,259	\$ 41,473,553	\$ 56,625,401	\$ 21,145,767	\$ 20,659,581	\$ 31,776,090	\$ 314,156,325
Investments	3,000,000	-	3,000,000	-	3,000,000	-	-	5,000,000	-	14,000,000
Interest receivable	874,438	23,233	520,706	306,285	511,604	619,328	247,036	370,711	312,029	3,785,370
Due from other governmental agencies	7,310,973	3,508,052	2,631,039	-	2,190,609	5,320,993	-	-	22,500	20,984,166
Due from other funds	2,950,368	-	-	-	121,250	-	-	-	-	3,071,618
Accounts receivable, net	745,386	-	-	-	190,373	55,445	-	-	1,145,272	2,136,476
Inventories	49,856	-	-	-	-	-	-	-	-	49,856
Total assets and other debits	<u>\$ 86,336,818</u>	<u>\$ 5,128,657</u>	<u>\$ 48,664,250</u>	<u>\$ 27,266,544</u>	<u>\$ 47,487,389</u>	<u>\$ 62,621,167</u>	<u>\$ 21,392,803</u>	<u>\$ 26,030,292</u>	<u>\$ 33,255,891</u>	<u>\$ 358,183,811</u>
<u>Liabilities and Fund Balances</u>										
22 Liabilities:										
Accounts payable and accrued liabilities	\$ 7,194,448	\$ 3,508,052	\$ 2,500,872	\$ 2,056,119	\$ 2,861,484	\$ 1,633,504	\$ 346,862	\$ 255	\$ 2,122,024	\$ 22,223,620
Salaries and benefits payable	4,773,284	-	-	-	-	-	-	-	-	4,773,284
Due to other funds	121,780	-	-	209,079	4,180	1,296,652	-	-	1,440,457	3,072,148
Unearned revenue	12,930,171	-	-	-	-	-	-	-	-	12,930,171
Total liabilities	<u>25,019,683</u>	<u>3,508,052</u>	<u>2,500,872</u>	<u>2,265,198</u>	<u>2,865,664</u>	<u>2,930,156</u>	<u>346,862</u>	<u>255</u>	<u>3,562,481</u>	<u>42,999,223</u>
Fund Balances:										
Reserved for encumbrances	4,791,958	-	17,523,250	7,600,614	13,268,960	37,321,169	762,763	-	15,246,991	96,515,705
Reserved for inventories	49,856	-	-	-	-	-	-	-	-	49,856
Unreserved:										
General fund	56,475,321	-	-	-	-	-	-	-	-	56,475,321
Special revenue funds	-	1,620,605	28,640,128	17,400,732	31,352,765	22,369,842	20,283,178	26,030,037	14,446,419	162,143,706
Total fund balances	<u>61,317,135</u>	<u>1,620,605</u>	<u>46,163,378</u>	<u>25,001,346</u>	<u>44,621,725</u>	<u>59,691,011</u>	<u>21,045,941</u>	<u>26,030,037</u>	<u>29,693,410</u>	<u>315,184,588</u>
Total liabilities and fund balances	<u>\$ 86,336,818</u>	<u>\$ 5,128,657</u>	<u>\$ 48,664,250</u>	<u>\$ 27,266,544</u>	<u>\$ 47,487,389</u>	<u>\$ 62,621,167</u>	<u>\$ 21,392,803</u>	<u>\$ 26,030,292</u>	<u>\$ 33,255,891</u>	<u>\$ 358,183,811</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2006**

Total fund balances – total governmental funds	\$315,184,588
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Pension assets and related AQMD costs resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not reported in the governmental funds.	46,756,200
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet. These capital assets net of accumulated depreciation are reported in the Statement of Net Assets as capital assets of AQMD as a whole.	51,907,415
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.	(2,130,999)
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	(111,651,896)
General and auto liability	(13,160)
Workers' compensation	(1,415,412)
Compensated absences	<u>(12,300,972)</u>
Net assets of governmental activities	<u>\$286,335,764</u>

See accompanying notes to the basic financial statements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

Revenues:	General Fund	Air Quality Improvement Fund	Mobile Sources Air Pollution Reduction Fund	Air Quality Investment Fund	Clean Fuels Program Fund	Carl Moyer Program Fund	Rule 1309.1 Priority Reserve Fund	BP ARCO Settlement Project Fund	Other Governmental Funds	Total
	Emission fees	\$ 20,229,322	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,353,100	\$ -	\$ -
Annual renewal fees	30,991,226	-	-	-	-	-	-	-	-	30,991,226
Permit processing fees	14,765,144	-	-	-	-	-	-	-	-	14,765,144
Clean fuels/mobile/stationary sources	20,361,416	15,906,925	14,561,233	-	7,850,029	23,642,210	-	-	-	82,321,813
Air Toxics "Hot Spots"	1,440,457	-	-	-	-	-	-	-	-	1,440,457
Transportation programs	895,194	-	-	-	-	-	-	-	-	895,194
State subvention	4,022,094	-	-	-	-	-	-	-	-	4,022,094
Federal grant	5,643,540	-	-	-	-	-	-	-	232,500	5,876,040
State grant	1,014,827	-	-	-	100,000	-	-	-	5,449,000	6,563,827
Interest	2,887,395	72,710	1,702,701	992,306	1,818,480	1,787,310	751,577	980,735	1,094,632	12,087,846
Lease revenue	364,326	-	-	-	-	-	-	-	-	364,326
Source test/analysis fees	401,487	-	-	-	-	-	-	-	-	401,487
Hearing Board fees	655,553	-	-	-	-	-	-	-	-	655,553
Penalties/settlements	16,074,370	-	-	-	-	-	-	-	-	16,074,370
Subscriptions	19,214	-	-	-	-	-	-	-	-	19,214
RECLAIM & executive order mitigation	-	-	-	842,214	-	-	-	-	-	842,214
Other revenues	907,222	-	-	2,432,964	-	-	-	-	652,760	3,992,946
Total revenues	120,672,787	15,979,635	16,263,934	4,267,484	9,768,509	25,429,520	14,104,677	980,735	7,428,892	214,896,173
Expenditures:										
Current:										
Salaries and employee benefits	77,858,212	-	-	-	-	-	-	-	-	77,858,212
Insurance	1,193,345	-	-	-	-	-	-	-	-	1,193,345
Rent	776,438	-	-	-	-	-	-	-	-	776,438
Supplies	2,274,844	-	-	-	-	-	-	-	-	2,274,844
Contract and special services	8,836,193	16,541,805	14,596,918	3,838,879	12,155,262	6,255,752	434,926	1,603	9,925,341	72,586,679
Maintenance	1,120,620	-	-	-	-	-	-	-	-	1,120,620
Travel and auto	478,091	-	-	-	-	-	-	-	-	478,091
Utilities	1,680,754	-	-	-	-	-	-	-	-	1,680,754
Communications	463,665	-	-	-	-	-	-	-	-	463,665
Uncollectible accounts	144,972	-	-	-	-	-	-	-	(180,071)	(35,099)
Other expenditures	595,320	-	453,250	-	192,226	-	-	-	39,154	1,279,950
Capital outlay	1,076,407	-	-	-	-	-	-	-	53,857	1,130,264
Debt service:										
Principal	7,510,000	-	-	-	-	-	-	-	-	7,510,000
Interest	5,165,067	-	-	-	-	-	-	-	-	5,165,067
Total expenditures	109,173,928	16,541,805	15,050,168	3,838,879	12,347,488	6,255,752	434,926	1,603	9,838,281	173,482,830
Excess (deficiency) of revenues over (under) expenditures before transfers	11,498,859	(562,170)	1,213,766	428,605	(2,578,979)	19,173,768	13,669,751	979,132	(2,409,389)	41,413,343
Other Financing Sources (uses):										
Transfers in	16,595	-	-	-	-	-	-	-	88,500	105,095
Transfers out	-	-	-	-	(78,500)	-	-	-	(10,000)	(88,500)
Total other financing sources (uses)	16,595	-	-	-	(78,500)	-	-	-	78,500	16,595
Net change in fund balance	11,515,454	(562,170)	1,213,766	428,605	(2,657,479)	19,173,768	13,669,751	979,132	(2,330,889)	41,429,938
Fund balances, July 1, 2005	49,801,681	2,182,775	44,949,612	24,572,741	47,279,204	40,517,243	7,376,190	25,050,905	32,024,299	273,754,650
Fund balances, June 30, 2006	\$ 61,317,135	\$ 1,620,605	\$ 46,163,378	\$ 25,001,346	\$ 44,621,725	\$ 59,691,011	\$ 21,045,941	\$ 26,030,037	\$ 29,693,410	\$ 315,184,588

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006**

Net change in fund balances - total governmental funds	\$41,413,343
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.	1,130,264
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.	(4,306,053)
Amortization of prepaid pension asset is reported in the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, amortized amount is not reported in governmental funds.	126,020
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.	7,510,000
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, accrued interest expense is not reported as an expenditure in governmental funds.	(2,130,999)
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. The following amounts represent the change from the prior year:	
Compensated absences	(995,276)
General and auto liability/workers' compensation claims	<u>(80,661)</u>
Change in net assets of governmental activities	<u>\$42,666,638</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Clean Air Store Fund</u>	<u>CNG Fueling Station Fund</u>	<u>Total</u>
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ -	\$ 81,465	\$ 81,465
Inventories	-	-	-
Total current assets	<u>-</u>	<u>81,465</u>	<u>81,465</u>
Noncurrent Assets:			
Capital assets, net of accumulated depreciation	-	313,177	313,177
Total noncurrent assets	<u>-</u>	<u>313,177</u>	<u>313,177</u>
Total assets	<u>-</u>	<u>394,642</u>	<u>394,642</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable and accrued liabilities	-	8,518	8,518
Total liabilities	<u>-</u>	<u>8,518</u>	<u>8,518</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	-	313,177	313,177
Unrestricted	-	72,947	72,947
Total net assets	<u>\$ -</u>	<u>\$ 386,124</u>	<u>\$ 386,124</u>

See accompanying notes to the basic financial statements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds		
	Clean Air Store	CNG Fueling	Total
	Fund	Station Fund	
Revenue:			
Merchandise sales	\$ 3,742	\$ 119,883	\$ 123,625
Total operating revenue	3,742	119,883	123,625
Expenses:			
Depreciation	-	87,198	87,198
Other expenses	3,653	111,590	115,243
Total operating expenses	3,653	198,788	202,441
Operating income (loss)	89	(78,905)	(78,816)
Other Financing Sources:			
Transfer in			
Transfer out	(16,595)	-	(16,595)
Total other financing sources:	(16,595)	-	(16,595)
Total net assets, July 1, 2005	16,506	465,029	481,535
Total net assets, June 30, 2006	\$ -	\$ 386,124	\$ 386,124

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Clean Air Store Fund</u>	<u>CNG Fueling Station Fund</u>	<u>Total</u>
<u>Cash Flows from Operating Activities:</u>			
Cash received from merchandise sales	\$ 4,047	\$ 123,117	\$ 127,164
Cash payment for goods and services	(408)	(113,639)	(114,047)
Net cash provided by operating activities	<u>3,639</u>	<u>9,478</u>	<u>13,117</u>
Other financing sources-transfer out	(16,595)	-	(16,595)
Net cash provided by operating activities and other financing source	<u>(12,956)</u>	<u>9,478</u>	<u>(3,478)</u>
Beginning cash balance, July 1, 2005	<u>12,956</u>	<u>71,987</u>	<u>84,943</u>
Ending cash balance, June 30, 2006	<u>\$ -</u>	<u>\$ 81,465</u>	<u>\$ 81,465</u>

Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:

Operating income	\$ <u>89</u>	\$ <u>(78,905)</u>	\$ <u>(78,816)</u>
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	-	87,198	87,198
Decrease (increase) in accounts receivable	-	-	-
Decrease (increase) in inventory	3,653	-	3,653
Increase (decrease) in accounts payable and accrued liabilities	(103)	1,185	1,082
Total adjustments	<u>3,550</u>	<u>88,383</u>	<u>91,933</u>
Net cash provided by operating activities	<u>\$ 3,639</u>	<u>\$ 9,478</u>	<u>\$ 13,117</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
June 30, 2006**

<u>Assets</u>	<u>Agency Funds</u>	<u>Retirement Benefit Trust Fund</u>
Cash and cash equivalents	\$ 550,516	\$ 1,660,931
Interest receivable	6,063	18,860
Due from other funds	<u>-</u>	<u>530</u>
 Total assets	 <u>\$ 556,579</u>	 <u>1,680,321</u>
 <u>Liabilities</u>		
Liabilities:		
Accounts payable & accrued liabilities	\$ <u>556,579</u>	<u>-</u>
 Total liabilities	 <u>\$ 556,579</u>	 <u>-</u>
 <u>Net Assets</u>		
Net assets held in trust for retirement benefit		<u>1,680,321</u>
 Total net assets		 <u>\$ 1,680,321</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
For the Year Ended June 30, 2006**

	Retirement Benefit Trust Fund
<u>Additions:</u>	
Contributions	\$ 2,064
Interest	62,712
Total additions	64,776
 <u>Deductions:</u>	
Other expenditures	-
Total deductions	-
Change in net assets	64,776
Net assets held in trust for retirement benefits, July 1, 2005	1,615,545
Net assets held in trust for retirement benefits, June 30, 2006	\$ 1,680,321

See accompanying notes to the basic financial statements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

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 activities of the AQMD (primary government) and its discretely presented component unit, South Coast Air Quality Management District Building Corporation (Corporation), an entity for which the AQMD is considered to be financially accountable. Legally separate from the AQMD and as a tax-exempt entity, the Corporation is reported in a separate column within the government-wide financial statements.

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

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

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

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

same limitation. The AQMD has elected not to follow subsequent private-sector guidance.

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

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

Government-wide Financial Statements

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

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

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

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

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

The types of transactions reported as program revenues are reported in three categories: 1) fees and charges including stationary source fees from permitted facilities and mobile source fees from motor vehicle registrations; 2) operating grants and subventions that are in support of air pollution program activities; and 3) restricted special revenue sources which include capital grants and contributions which are mostly restricted. Program expenditures are subtracted from program revenues to present the net cost of each

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

functional activity. Interest income and other miscellaneous items not properly included among program revenues are reported as general revenues.

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

- Advance clean air technology
- Ensure compliance with clean air rules
- Customer service
- Develop programs to achieve clean air
- Develop rules to achieve clean air
- Monitoring air quality
- Permit review
- Policy support, and
- Special funds activities

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

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

Governmental Fund Financial Statements

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

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

The AQMD has presented all major funds that met those qualifications. These major funds are the Air Quality Improvement Fund, Mobile Sources Air Pollution Reduction Fund, Air Quality Investment Fund, Clean Fuels Program Fund, Carl Moyer Program Fund, Rule 1309.1 Priority Reserve Fund and BP Arco Settlement Projects Fund in addition to the General Fund.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

A reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences as a result of the integrated approach of GASB Statement No. 34 reporting.

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

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

Proprietary Fund Statements

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Fiduciary Fund Statements

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

C. Fund Types and Major Funds

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

The AQMD reports the following major governmental funds:

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

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

- Air Quality Improvement Fund - Used to account for 40% of the revenue received by the AQMD from motor vehicle registration fees under the provisions of Sections 44243 and 44244 of the California Health and Safety Code. This money is distributed on a quarterly basis to cities and counties within the South Coast Air Basin to implement programs to reduce air pollution from motor vehicles.
- Mobile Sources Air Pollution Reduction Fund - Used to account for 30% of the revenue received by the AQMD from the motor vehicle registration fees under the provisions of Sections 44243 and 44244 of the California Health and Safety Code. This money is used to provide grants to fund projects for the purpose of reducing air pollution from motor vehicles within the South Coast Air Basin. Total projects to date amount to over \$220 million and over 7,200 tons of emissions reduced. This special fund was established in FY 1991-92.
- Air Quality Investment Fund - Is one of the compliance options available to employers with 250 or more employees at a worksite who are subject to Rule 2202. This revenue is used to purchase emissions reductions credits to meet the required target. To date, \$35.58 million in projects have been awarded to purchase over 23,782 tons of emission reductions. During fiscal year 2006, 13 contracts were awarded in the amount of \$3.965 million.

RECLAIM AQIP - Established in fiscal year 2001 to separately account for the generation of NOx (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.

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

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

- 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 791 projects totaling \$128.9 million.
- Carl Moyer Program Fund - Established in fiscal year 1999 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 2,900 vehicles and 33 infrastructure/charging stations, totaling \$86 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.
- Rule 1309.1 Priority Reserve Fund - Established in fiscal year 2001 to account for mitigation fees paid for Particulate Matter ≤ 10 microns (PM₁₀) credits. Due to the state energy crisis, Rule 1309.1 was amended to allow new electric generating facilities temporary access to AQMD’s Priority Reserve Account to offset their PM₁₀ emission increases provided that they meet specific criteria and pay appropriate mitigation fees.
- BP Arco Settlement Projects Fund – Established in fiscal year 2005 to account for the \$25 million civil penalties received in 2005 as part of the settlement with BP Arco for air pollution violations.

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

The AQMD reports the following major proprietary fund:

- Compressed Natural Gas (CNG) Fueling Station Fund – Established during fiscal year 2002 to administer all activities, transactions, and funding relating to the public and the AQMD use of CNG fueling facilities at the AQMD’s headquarters. The

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
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fueling station will help accommodate the growing number of alternative-fuel vehicle fleets.

The AQMD also reports the following fund types:

- Agency Funds - Used to account for funds received and held by the AQMD as an agent and then disbursed to other governmental agencies, businesses or persons. The following are the AQMD's agency funds:

SCAQMD Building Corporation Fund - Used to account for funds required to be deposited in a separate fund by the installment purchase agreement between the AQMD and the Corporation. Note VI provides for more information regarding this agreement.

General Purpose Fund - Used to account for funds due to others that are not accounted for in the other funds.

- Retirement Benefit Trust Fund - Used to account for funds contributed by the AQMD and interest earned on its principal for the future payment of medical, dental and burial costs of the AQMD employees retiring subsequent to June 30, 1982, who are members of the Los Angeles County Employees Retirement Association. Note VIII contains more information about the AQMD's retirement plans.

D. Assets, Liabilities and Net Assets or Equity

1. Cash and Cash Equivalents

The AQMD considers highly liquid investments with an original maturity of less than a year 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:

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

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

4. Inventories

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

5. Compensated Absences

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

6. Self-Insurance

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

7. Long-term Obligation

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

8. Reserves and Designations

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

The following table shows reserved and unreserved fund balances as of June 30, 2006:

	<u>General Fund</u>	<u>Major Governmental Funds</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Reserved for:				
Encumbrances	\$ 4,791,958	\$ 76,476,756	\$ 15,246,991	\$ 96,515,705
Inventories	49,856	-	-	49,856
Total reserved fund balances	<u>4,841,814</u>	<u>76,476,756</u>	<u>15,246,991</u>	<u>96,565,561</u>
Unreserved, designated for:				
Self-insurance	2,000,000	-	-	2,000,000
Litigation/Enforcement	850,000	-	-	850,000
Equipment replacement	2,000,000	-	-	2,000,000
Facility refurbishing	1,390,000	-	-	1,390,000
Budget stabilization	8,000,000	-	-	8,000,000
Unemployment claims	80,000	-	-	80,000
Enhanced compliance activities	291,061	-	-	291,061
Unreserved, undesignated	<u>41,864,260</u>	<u>147,697,287</u>	<u>14,446,419</u>	<u>204,007,966</u>
Total unreserved fund balances	<u>56,475,321</u>	<u>147,697,287</u>	<u>14,446,419</u>	<u>218,619,027</u>
Total fund balances	<u>\$ 61,317,135</u>	<u>\$ 224,174,043</u>	<u>\$ 29,693,410</u>	<u>\$ 315,184,588</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 expenditures during the reporting period. Actual results could differ from those estimates.

F. Adoption of New GASB Pronouncements

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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
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GASB Statement 40, “Deposit and Investment Risk Disclosures”

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

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

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

II. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following is a summary of the cash and cash equivalent balances for the primary government (including fiduciary funds) and component unit at June 30, 2006.

	Primary Government	Component Unit
Cash on hand	\$ 799,806	-
Cash in bank	60,000	\$ 965,292
Cash equivalents in pooled investments	315,589,431	-
	<u>\$ 316,449,237</u>	<u>\$ 965,292</u>

DEPOSITS

At June 30, 2006, the carrying amount of the AQMD’s bank deposits was \$60,000 and the bank balance was \$79,852. The entire amount was covered by federal depository insurance.

At June 30, 2006, the carrying amount and bank balance of the AQMD’s component unit bank deposits was \$965,292 of which \$100,000 was covered by federal depository insurance. The remaining \$865,292 in excess of \$100,000 was collateralized as required by state law.

INVESTMENTS

At June 30, 2006 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 amounting to \$316,449,237 is stated at fair value. Investments in the amount of \$14,000,000 are reported at amortized cost which approximates market value.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Changes in 1996 to the California 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. California 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 29 years, the County of Los Angeles has provided treasury management services to the AQMD. These services are limited to the processing of payroll and accounts payable warrants and the investment of available cash balances. Annually, the Governing Board reviews the treasury management options available to the AQMD and renews its delegation of authority to its appointed Treasurer to invest or re-invest AQMD funds.

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

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

- U.S. Treasuries
- 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 – shall be limited to ratings of AAA by two of the three largest nationally recognized rating services.
- Bankers acceptances – credit requirements shall be a minimum of 2-A/B for Fitch or P-1/Aaa for Moody's Investors Service.
- Negotiable certificates of deposit – shall be a minimum of 2-A/B for Fitch or P-1/Aaa for Moody's Investors. The Los Angeles County has A-1 by Standard & Poor's (S&P) and P-1 by Moody's.
- Commercial paper – short term rating of A-1 by S&P or better and Moody's Investors Service short term rating of P-1 or better. The Los Angeles County has A-1 by S&P and P-1 by Moody's.
- Medium term maturity corporate securities – shall be limited to a minimum of AA – from S&P or Aa3 from Moody's.
- Mortgage securities or asset-backed securities – shall be rated AA or its equivalent or better by a nationally recognized rating service and issued by an issuer having A or better rating by a nationally recognized rating service for its long-term debt.
- 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%

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

The following table summarizes AQMD’s cash, cash equivalents and investments at June 30, 2006.

	Fair <u>Value</u>	Investment Maturities		
		<u><1 Year</u>	<u>1-2 years</u>	<u>2-3 years</u>
Cash:				
On hand	\$ 799,806	-	-	-
In bank	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash	<u>859,806</u>	<u>-</u>	<u>-</u>	<u>-</u>
Pooled investments:				
Investment in Los Angeles County’s				
Pooled Surplus Investment (PSI) Fund	\$ 275,695,619	\$ 275,695,619	\$ -	\$ -
Investment in Local Agency				
Investment Fund	<u>39,893,812</u>	<u>39,893,812</u>	<u>-</u>	<u>-</u>
Total cash equivalents	<u>315,589,431</u>	<u>315,589,431</u>	<u>-</u>	<u>-</u>
Investments:				
U.S. Government Securities	<u>14,000,000</u>	<u>-</u>	<u>14,000,000</u>	<u>-</u>
Total Investments	<u>14,000,000</u>	<u>-</u>	<u>14,000,000</u>	<u>-</u>
Sub-total pooled investments/ investments	<u>\$ 329,589,431</u>	<u>\$ 315,589,431</u>	<u>\$ 14,000,000</u>	<u>\$ -</u>
Total cash, cash equivalents & investments	<u>\$ 330,449,237</u>	<u>\$ 315,589,431</u>	<u>\$ 14,000,000</u>	<u>\$ -</u>

Interest Rate Risk

Interest rate risk is associated with price volatility introduced by extending the maturity of instruments purchased. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the AQMD investment policy limits its investment portfolio of Pooled Surplus Investments (PSI) with the County of Los Angeles to maturities of less than five years at time of purchase. The maximum maturity of any SPI (Special Purpose Investments) shall be five years. The weighted average maturity of the SPI separate account portfolio may not exceed three years.

Credit Risk

Credit risk is the risk of default or the inability of a debt issuer to fulfill its obligation when due. The AQMD mitigates its credit risk generally by following its three primary investment objectives, in order of safety, liquidity, and yield. The AQMD’s policy further restricts the

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
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investing in only permitted investments; the portfolio is diversified so that no one type of issuer or issue will have a disproportionate impact on the portfolio.

Custodial Credit Risk

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

As of June 30, 2006, none of the AQMD's deposits or investments were exposed to custodial credit risk.

State Treasurer's Local Agency Investment Fund

The AQMD is a voluntary participant in the California State Treasurer's Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. At June 30, 2006, the AQMD had \$39,893,812 deposited in LAIF. The amount invested is unrated as to credit quality.

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

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

III. DUE FROM OTHER GOVERNMENT AGENCIES AND ACCOUNTS RECEIVABLE

Due from other government agencies at June 30, 2006 consists of the following:

State Air Resources Board	\$ 935,928
Department of Defense	
US Army Robery Morris Acquisition Center	317,465
U.S. Treasury, GSA (Lease)	21,932
Diamond Bar Chamber of Commerce (Lease)	937
Environmental Protection Agency	4,362,100
Department of Motor Vehicles	<u>15,345,804</u>
Total	<u>\$20,984,166</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

Accounts Receivable consist of the following at June 30, 2006:

Air toxics “Hot Spots”, emission fees, permits, annuals and source testing	\$2,034,501
Clean fuels/stationary sources	195,373
Miscellaneous receivables	<u>236,602</u>
Subtotal	2,466,476
Less: Allowance for doubtful accounts	<u>(330,000)</u>
Total	<u>\$2,136,476</u>

IV. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The components of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Clean Fuels Program Fund	\$ 4,180
Clean Fuels Program Fund	General Fund	121,250
General Fund	Carl Moyer Program Fund	1,296,652
General Fund	Air Quality Investment Fund	209,079
General Fund	Air Toxics Special Revenue Fund	1,440,457
Retirement Benefit Trust Fund	General Fund	<u>530</u>
Total		<u>\$ 3,072,148</u>

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

Interfund transfers for the year ended June 30, 2006, consisted of the following amounts:

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>		
	<u>Governmental</u>		
	<u>Clean Fuels Conference Fund</u>	<u>General Fund</u>	<u>Total</u>
Clean Fuels Program Fund	\$ 78,500	\$ -	\$ 78,500
Natural Gas Vehicle Partnership Fund	10,000	-	10,000
Clean Air Store Enterprise Fund	-	16,595	16,595
Total	<u>\$ 88,500</u>	<u>\$ 16,595</u>	<u>\$ 105,095</u>

The AQMD Governing Board approved the transfer of \$78,500 from the Clean Fuels Fund to the Clean Fuels Conference Fund to cover the budget for the Ultrafine Particles Conference. The conference was held on April 30 through May 2, 2006.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

The AQMD Executive Officer approved the transfer of \$10,000 from California Natural Gas Vehicle Partnership Fund (CNGVP) to the Clean Fuels Conference Fund. This is for co-sponsorship of CNGVP in the Ultrafine Particles 2006 Conference.

In June 2004, as part of the FY 2004-05 Budget process, the Board directed the staff to work with a Stakeholder Working Group consisted of business, environmental, local government, and community members to identify and recommend discretionary programs/activities that could be enhanced, maintained, scaled back, or eliminated. One of the recommendations during the Governing Board Budget Workshop on April 29, 2005 was the elimination of the Clean Air Store. Upon closing of the Clean Air Store in FY 2005-06, \$16,595 was transferred to the General Fund.

V. CAPITAL ASSETS

In compliance with GASB Statement 34 reporting, the AQMD has reported all capital assets in the Government-wide Statement of Net Assets. Changes in capital assets of the AQMD for the year ended June 30, 2006 are as follows:

	<u>Balance July 1, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2006</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 8,829,792	\$ 0	\$ 0	\$ 8,829,792
Total capital assets not being depreciated	<u>8,829,792</u>	<u>0</u>	<u>0</u>	<u>8,829,792</u>
Capital Assets being Depreciated:				
Buildings and improvements	73,771,340	80,647	(22,223)	73,829,764
Equipment	<u>20,793,034</u>	<u>1,216,962</u>	<u>(1,122,975)</u>	<u>20,887,021</u>
Total capital assets being depreciated	<u>94,564,374</u>	<u>1,297,609</u>	<u>(1,145,198)</u>	<u>94,716,785</u>
Less Accumulated Depreciation for:				
Buildings and improvements	(33,067,286)	(2,471,792)	10,274	(35,528,804)
Equipment	<u>(15,542,981)</u>	<u>(1,834,261)</u>	<u>1,266,884</u>	<u>(16,110,358)</u>
Total accumulated depreciation	<u>(48,610,267)</u>	<u>(4,306,053)</u>	<u>1,277,158</u>	<u>(51,639,162)</u>
Net capital assets being depreciated	<u>45,954,107</u>	<u>(3,008,444)</u>	<u>(131,960)</u>	<u>43,077,623</u>
Net capital assets, governmental activities	<u>\$ 54,783,899</u>	<u>\$ (3,008,444)</u>	<u>\$ (131,960)</u>	<u>\$ 51,907,415</u>
Business-type Activities:				
Compressed natural gas (CNG)				
Fueling station	\$ 610,200	\$ 0	\$ 0	\$ 610,200
Total capital assets being depreciated	<u>610,200</u>	<u>0</u>	<u>0</u>	<u>610,200</u>
Less accumulated depreciation	<u>(209,825)</u>	<u>(87,198)</u>	<u>0</u>	<u>(297,023)</u>
Net capital assets, business-type activities	<u>\$ 400,375</u>	<u>\$ (87,198)</u>	<u>\$ 0</u>	<u>\$ 313,177</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

For the year ended June 30, 2006, the depreciation expense of \$4,306,053 was charged to the AQMD's functions/programs in the governmental activities as follows:

Advance clean air technology	\$ 204,017
Ensure compliance with clean air rules	1,595,559
Customer service	296,828
Develop programs to achieve clean air	201,031
Develop rules to achieve clean air	253,231
Monitoring air quality	1,059,771
Permit review	635,958
Policy support	<u>59,658</u>
Total depreciation expense	<u>\$4,306,053</u>

VI. LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the AQMD for the year ended June 30, 2006:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts Due</u> <u>in More Than</u> <u>One Year</u>
Governmental Activities:						
Claims payable:						
General liability	\$ 44,168	\$ (331)	\$ 30,677	\$13,160	\$ 13,160	\$ -
Workers' compensation	1,303,743	501,770	390,101	1,415,412	340,000	1,075,412
Compensated absences	11,305,696	1,422,168	426,892	12,300,972	366,527	11,934,445
Installment Sale Obligation:						
Building	48,735,000	-	4,540,000	44,195,000	4,565,000	39,630,000
Installment pension obligation bonds	<u>70,426,896</u>	<u>-</u>	<u>2,970,000</u>	<u>67,456,896</u>	<u>3,305,000</u>	<u>64,151,896</u>
Total	<u>\$131,815,503</u>	<u>\$1,923,607</u>	<u>\$8,357,670</u>	<u>\$125,381,440</u>	<u>\$8,589,687</u>	<u>\$116,791,753</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, 2006, \$1,960,000 in principal and \$1,106,022 in interest were paid on the bonds. The principal balance outstanding at June 30, 2006 amounted to \$21,436,896.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

The annual payment requirements under the 1995 installment pension bond obligation are as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 2,095,000	\$ 969,859	\$ 3,064,859
2008	2,245,000	822,816	3,067,816
2009	2,400,000	663,933	3,063,933
2010	2,575,000	492,141	3,067,141
2011	2,760,000	306,326	3,066,326
2012-2016	6,136,014	9,187,925	15,323,939
2017-2021	2,784,001	12,540,999	15,325,000
2022	441,881	2,623,119	3,065,000
Total	<u>\$ 21,436,896</u>	<u>\$ 27,607,118</u>	<u>\$ 49,044,014</u>

Series 2004 Pension Obligation Bonds

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

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

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 1,210,000	\$ 2,486,340	\$ 3,696,340
2008	1,430,000	2,423,640	3,853,640
2009	1,670,000	2,350,014	4,020,014
2010	1,925,000	2,264,633	4,189,633
2011	1,955,000	2,172,483	4,127,483
2012-2016	11,415,000	9,219,472	20,634,472
2017-2021	15,060,000	5,573,577	20,633,577
2022-2024	11,355,000	1,030,875	12,385,875
Total	<u>\$ 46,020,000</u>	<u>\$ 27,521,034</u>	<u>\$ 73,541,034</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

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, 2006, the remaining balance is \$11,070,000.

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, 2006, the remaining principal balance on the Series 1992 bonds is \$8,615,000. This remaining balance in the amount of \$5,375,000 and \$3,240,000 are due on August 1, 2010 and August 1, 2011, respectively. Interest is payable on each February 1st and August 1st and is computed based upon a 6% interest rate.

On June 1, 2002, the Corporation issued \$26,820,000 in Installment Sale Revenue Bonds with interest rates ranging from 2.75% to 4.25% to refund \$25,460,000 of the Series 1992 bonds with interest rates ranging from 4.00% to 6.00%. As of June 30, 2006, the remaining balance is \$24,510,000.

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

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

Year Ending	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 4,565,000	\$ 1,494,105	\$ 6,059,105	
2008	4,595,000	1,464,011	6,059,011	
2009	4,625,000	1,428,342	6,053,342	
2010	4,665,000	1,316,342	5,981,342	
2011	5,375,000	1,061,793	6,436,793	
2012-2015	<u>20,370,000</u>	<u>1,641,129</u>	<u>22,011,129</u>	
Total	\$	\$ <u>8,405,722</u>	\$	
	<u>44,195,000.0</u>		<u>52,600,72222</u>	
	<u>00</u>			

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

Allocation of Interest Expenses

Total interest expenses on long-term debt for the year ended June 30, 2006 amounted to \$7,296,066. The following is the interest expense allocated to the various functional activities categories:

Advance clean air technology	\$ 372,099
Ensure compliance with clean air rules	2,524,439
Customer service	787,975
Develop programs to achieve clean air	525,317
Develop rules to achieve clean air	539,909
Monitoring air quality	700,422
Permit review	1,692,687
Policy support	<u>153,218</u>
Total interest on long-term debt	<u>\$7,296,066</u>

VII. RISK MANAGEMENT

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

The AQMD carries \$122,320,452 of property insurance including business income, boiler and machinery (with \$25 million of earthquake and flood coverage), \$10 million for Directors and Officers liability (including employment practice liability), \$1 million for employee dishonesty and theft, \$10 million for excess general, automobile, and employer's liability losses in excess of self-insured/retained amount of \$1 million, and \$25 million excess workers' compensation for losses over \$750,000. In addition, AQMD maintains \$1 million automobile liability/physical damage coverage for hybrid vehicles under its possession. As of June 30, 2006, \$1,415,412 and \$13,160, respectively, had been accrued for workers' compensation and general liability claims.

An appropriate amount has been recorded in the General Fund's financial statements to the extent that the AQMD anticipates that these amounts will be paid from current resources. While the ultimate amount of losses incurred through June 30, 2006, is dependent on future development based upon information from the independent claims' administrator and others involved with the administration of the programs, the AQMD management believes that the aggregate accrual is adequate to cover such losses.

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

The following represents changes in the aggregate liabilities for claims of the AQMD's general liability and workers' compensation for the years ended June 30, 2005 and 2006:

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

	<u>General and Auto Liability</u>	<u>Workers' Compensation</u>	<u>Totals</u>
Claims payable, July 1, 2004	\$ 77,160	\$ 925,052	\$ 1,002,212
Current year claims and changes in estimates	72,076	676,143	748,219
Claims payments	(105,068)	(297,452)	(402,520)
Claims payable, June 30, 2005	<u>\$ 44,168</u>	<u>\$ 1,303,743</u>	<u>\$ 1,347,911</u>
Claims payable, July 1, 2005	\$ 44,168	\$ 1,303,743	\$ 1,347,911
Current year claims and changes in estimates	(331)	501,770	501,439
Claims payments	(30,677)	(390,101)	(420,778)
Claims payable, June 30, 2006	<u>\$ 13,160</u>	<u>\$ 1,415,412</u>	<u>\$ 1,428,572</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, 2006 amounted to \$11,065,386 (\$19,815 to LACERA and \$11,045,571 to SBCERA).

In 1977, AQMD employees who were members of the LACERA system were given the option to transfer to the SBCERA system. Some employees decided to stay with LACERA. Most have already left employment and during FY 2005-06 there were only two active LACERA members.

Los Angeles County Employees' Retirement Association

The AQMD contributes to the LACERA, a cost-sharing multi-employer defined benefit plan. This public employee retirement system acts as a common investment and administrative agent for the County of Los Angeles and other participating agencies including the AQMD. The AQMD's payroll for two employees covered by LACERA for the year ended June 30, 2006 was \$103,192. The AQMD's contribution for the same period was \$19,815. Copies of LACERA's annual financial report may be obtained from their executive office: 300 N. Lake Avenue, Pasadena, CA 91101.

San Bernardino County Employees' Retirement Association

Plan Description

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

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% 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, 2006 were 20.85% for management, confidential and any employee who started before July 1, 1979 and 17.91% for non-Management and non-Confidential employees who started on or after July 1, 1979. Effective January 2, 2006, AQMD employees with the exception of the Office Clerical and Maintenance unit, contribute an additional 3.25% toward retirement. The AQMD Governing Board adopted this new provision in January 2006 as per Resolution No. 06-03 for Management and Confidential employees and the ratified Memorandum of Understanding between the AQMD and the remaining represented employee bargaining units. The additional 3.25% employee contribution reduces the employer's pick-up by 3.25%. This additional 3.25% employee pick-up is over and above whatever the employee contribution was prior to this change. The contribution requirements of the Plan members are established by State statute and may be amended by SBCERA Board of Retirement.

Annual Pension Cost

For the year ended June 30, 2006, the AQMD's annual pension cost and actual contributions for its 736 employees who are SBCERA members were \$11,045,571. The AQMD employee contributions to the plan amounted to \$2,566,844. The required contributions for the year ended June 30, 2005 were determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) investment rate of return, compounded semi-annually, 8.00% per annum; (b) projected salary increases of 4.25% per annum; and (c) cost of living adjustments for retirees contingent upon CPI with a 2% maximum. Both (a) and (b) include an inflation component of 4%.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

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). Components of SBCERA's unfunded actuarial accrued liability (UAAL) are amortized as a level percentage of payrolls over a twenty-year period. Future components of the UAAL will be amortized over separate twenty-year periods.

Three-Year Trend Information for the Plan

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2006	\$11,045,571	100%	-
2005	\$9,122,867	100%	-
2004	\$9,823,094	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, 2006, investments with a fair value of \$65,988,541 are held in trust.

X. COMMITMENTS

Guaranteed Loans

The Air Quality Assistance Fund (AQAF) was originally established to comply with state legislation which required the AQMD to allocate a portion of the funds it receives as penalties and settlements from violators of air pollution regulations and to provide financing assistance to small businesses that require financing in order to comply with the AQMD requirements. This was repealed by its own terms on January 1, 1999. In June 2000, the Governing Board authorized staff to continue to use the funds to assist small businesses with an improved program for greater participation. Financing assistance includes guaranteeing or

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

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. As of June 30, 2004, AQMP provided a 50% partial guarantee on defaulted loans in the amount of \$30,779; no recoveries were made on these defaulted loans. AQAF’s fund balance amounted to \$2,509,562 at fiscal year ended June 30, 2006.

Operating Leases

Rental expense for noncancelable operating leases was \$455,929 for the year ended June 30, 2006. Future minimum lease payments under noncancelable operating leases of the AQMD total as follows:

Year Ending June 30, 2012	<u>\$1,292,157</u>
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The lease for the office equipment expires in November 2006 and June 2011 while the lease of the South Bay satellite office expires September 30, 2006. This has been renewed effective October 1, 2006 through September 30, 2011.

XI. PENDING LITIGATION

Two lawsuits have been filed, Communities for a Better Environment v. South Coast Air Quality Management District and Valdez v. South Coast Air Quality Management District, which include a claim for attorneys' fees which could amount to \$750,000. The AQMD has set aside the amount to cover the claim for attorneys' fees. The costs are recognized as they are incurred. In addition, there is a lawsuit, Engine Manufacturers Association v AQMD, which includes a claim for attorney's fees which could amount to \$3,000,000. The AQMD has recognized an accrual for such probable liability. The AQMD is also defending a lawsuit involving the adoption of several rules, Association of American Railroads v. AQMD, for which there are no claims for monetary damages or attorneys' fees. However, AQMD has determined that the defense of this lawsuit may amount to \$4,000,000. This amount has been set aside by AQMD part of which has already been recognized and accrued. Any additional costs will be recognized as they are incurred. Finally, a number of other lawsuits and claims are pending against the AQMD for alleged damages to persons and property and for other alleged liabilities arising out of its normal operations. The AQMD's management believes that any liability that may arise from the ultimate resolution of such legal actions will not have a material adverse impact on the financial position as of June 30, 2006.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
GENERAL FUND - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Emission fees	\$ 20,352,000	\$ 20,352,000	\$ 20,229,322	\$ (122,678)
Annual renewal fees	31,408,000	31,408,000	30,991,226	(416,774)
Permit processing fees	14,818,133	14,818,133	14,765,144	(52,989)
Clean fuels mobile / stationary sources	18,778,000	20,345,000	20,361,416	16,416
Air toxics "Hot Spots"	1,490,000	1,615,000	1,440,457	(174,543)
Transportation programs	769,524	769,524	895,194	125,670
State subvention	4,022,000	4,022,000	4,022,094	94
Federal grant	5,983,500	6,930,955	5,643,540	(1,287,415)
State grant	-	-	1,014,827	1,014,827
Interest	934,700	934,700	2,887,395	1,952,695
Lease income	328,200	328,200	364,326	36,126
Source test/analysis fees	318,000	318,000	401,487	83,487
Hearing Board fees	1,119,500	1,119,500	655,553	(463,947)
Penalties/settlements	3,500,000	3,500,000	16,074,370	12,574,370
Subscriptions	36,400	36,400	19,214	(17,186)
Other revenue	402,000	1,278,000	907,222	(370,778)
Total revenues	<u>104,259,957</u>	<u>107,775,412</u>	<u>120,672,787</u>	<u>12,897,375</u>
Expenditures:				
Current:				
Salaries and employee benefits	74,814,671	80,494,580	77,858,212	2,636,368
Insurance	1,211,400	1,243,084	1,193,345	49,739
Rent	747,886	826,120	775,943	50,177
Supplies	2,433,585	2,956,753	2,316,097	640,656
Contract and special services	7,751,483	11,713,619	8,874,268	2,839,351
Maintenance	1,106,336	1,535,316	1,187,742	347,574
Travel and auto	447,300	664,844	478,091	186,753
Utilities	1,669,240	1,677,839	1,680,754	(2,915)
Communications	628,600	648,620	463,665	184,955
Uncollectible accounts	-	440	144,972	(144,532)
Other	887,240	980,747	605,029	375,718
Capital outlays	738,000	1,593,028	1,100,222	492,806
Debt service:				
Principal	7,510,000	7,510,000	7,510,000	-
Interest	5,165,066	5,165,067	5,165,067	-
Total expenditures	<u>105,110,807</u>	<u>117,010,057</u>	<u>109,353,407</u>	<u>7,656,650</u>
Net change in budgetary fund balances	<u>\$ (850,850)</u>	<u>\$ (9,234,645)</u>	<u>\$ 11,319,380</u>	<u>\$ 20,554,025</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, 2006**

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

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

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

Following input from the public, Budget Advisory Committee, and Governing Board, the draft budget for Fiscal Year 2005-06 was prepared and subsequently adopted at the June 2005 meeting of the Governing Board. The Fiscal Year 2005-06 Adopted Budget and the final fee schedules became effective on July 1, 2005.

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

The AQMD presents a comparison of annual budget to actual results for the General Fund. The budgeted expenditure amounts represent the adopted budget adjusted for Governing Board approved supplemental appropriations. The budgeted revenue amounts represent the adopted budget modified for Governing Board approved adjustments which were based upon new or additional revenue sources. Supplemental expenditure appropriations of \$11,899,250 and revenue adjustments of \$3,515,455 were approved by the Governing Board in FY 05-06.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2006

NOTE 2 – GENERAL FUND BUDGETARY BASIS RECONCILIATION

The General Fund Budgetary Basis on page 54 presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing expenditures data on a budgetary basis differ from those used to present financial statements in conformity with Generally Accepted Accounting Principles (GAAP), the following is a reconciliation of differences for the fiscal year ended June 30, 2006:

Expenditures and encumbrances (budgetary basis), June 30, 2006	\$109,353,407
Add: payments on encumbrances open at July 1, 2005	2,601,041
Less: encumbrances open at June 30, 2006	<u>(2,780,520)</u>
Expenditures (GAAP basis), June 30, 2006	<u>\$109,173,928</u>

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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2006**

Non-major Governmental Funds

Special Revenue Funds:

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2006

replacement and retrofit of high-emitting diesel-fueled school buses in the South Coast Air Basin. Funding for a total of \$58.6 million for school bus replacement and particulate matter (PM) trap retrofit has been provided for the period of fiscal years 2000 through 2006. This has enabled public school districts to purchase 286 new Compressed Natural Gas (CNG) buses and 86 new lower emitting diesel buses. It has also enabled public school districts and private contractors to retrofit PM traps on 2,101 diesel buses.

- Zero Emission Vehicle Incentive Program – Established in fiscal year 2001 to administer the State funds set aside for the implementation of the Zero Emission Vehicle (ZEV) Incentive Program.
- State Emissions Mitigation Fund – Established during fiscal year 2002 to account for the funds received from California Air Resources Board (CARB) to fund CARB selected projects on emission reductions within the South Coast Air Basin. This is in response to the Governor’s statewide program to mitigate excess emissions from peaker power generation units to alleviate the power crisis in California.
- AES Settlement Projects Fund – Established in fiscal year 2001 for the purpose of accounting for the one-time penalty settlement with AES Corporation for air pollution violations.
- CARB ERC Bank Fund – Established in fiscal year 2001 to account for the proceeds from the issuance of the Emission Reduction Credits (ERCs) to natural gas turbine power plant peaker units. CARB established the ERC Bank for peaker power plants that need emission offsets to add new or expanded capacity. Proceeds from the issuance of these ERCs will fund emission reduction programs where the new or expanded facility is located.
- LADWP Settlement Projects Fund – Established in fiscal year 2001 for the purpose of accounting for the monies received from the Los Angeles Department of Water and Power as part of the settlement agreement.
- Natural Gas Vehicle Partnership Fund – Established during fiscal year 2002 for creation of the Natural Gas Vehicle Partnership to facilitate the advancement of natural gas vehicle technology and deployment. The contributions received from participating members are accounted for in this fund as well as the expenditures for activities and projects selected by the Partnership.
- State Backup Generators (BUG) Program Fund – Established in fiscal year 2003 to account for the funds received from CARB’s Diesel-Fueled Electrical Backup Generator Emissions Mitigation Program. This program funds emission related projects as part of an ongoing effort to expeditiously reduce public exposure to air toxics and other pollutants.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2006

- SCAQMD Asthma and Brain Cancer Research Fund – Established in fiscal year 2003 to assist in funding research projects relating to asthma and outdoor air quality and the potential link between air pollution and brain cancer.
- Dry Cleaner Financial Incentives Grant Program – Established in fiscal year 2003 to provide financial incentives to dry cleaners to purchase non-toxic alternative dry cleaning equipment.
- Rule 1173 Mitigation Fee Fund – Established in fiscal year 2004 to account for Rule 1173 mitigation fee payments to be used in funding air quality projects which directly benefit the community surrounding the facility. Amendments in December 2002 to Rule 1173 for Refineries and Chemical Plants established a mitigation fee payment provision relating to the release of Volatile Organic Compound (VOC) from an atmospheric Pressure Relief Device (PRD).
- Communities for Better Environment (CBE)/Our Children's Earth (OCE) Settlement Agreement Fund – Established in FY 2004 as part of the settlement agreement to fund PM₁₀ (Particulate Matter ≤ 10 microns) and/or NO_x (Oxides of Nitrogen) reduction projects in disproportionately impacted areas.

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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2006**

	Special Revenue				
<u>Assets</u>	<u>Air Quality Studies Fund</u>	<u>Air Toxics Fund</u>	<u>Advanced Technology Fund</u>	<u>Air Quality Assistance Fund</u>	<u>Clean Fuels Conference Fund</u>
Cash and cash equivalents	\$ 55,231	\$ 1,912,592	\$ 57,098	\$ 2,480,959	\$ 243,503
Interest receivable	643	23,415	880	28,603	-
Due from other governmental agency	-	-	-	-	10,000
Due from other funds	-	-	-	-	-
Accounts receivable, net	-	1,119,872	-	-	25,400
Total assets	\$ 55,874	\$ 3,055,879	\$ 57,978	\$ 2,509,562	\$ 278,903
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ -	\$ 479,830	\$ 29,800	\$ -	\$ 7,466
Due to other funds	-	1,440,457	-	-	-
Total liabilities	-	1,920,287	29,800	-	7,466
Fund Balances:					
Reserved for encumbrances	-	-	69,429	-	6,175
Unreserved	55,874	1,135,592	(41,251)	2,509,562	265,262
Total fund balances	55,874	1,135,592	28,178	2,509,562	271,437
Total liabilities and fund balances	\$ 55,874	\$ 3,055,879	\$ 57,978	\$ 2,509,562	\$ 278,903

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2006**

<u>Assets</u>	Special Revenue		
	Lower-Emission School Bus Fund	Zero Emission Vehicle Incentive Fund	AES Settlement Projects Fund
Cash and cash equivalents	\$ 12,992,830	\$ 544,692	\$ 3,616,103
Interest receivable	96,291	6,337	47,924
Due from other governmental agency	12,500	-	-
Due from other funds	-	-	-
Accounts receivable, net	-	-	-
Total assets	\$ 13,101,621	\$ 551,029	\$ 3,664,027
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable & accrued liabilities	\$ 1,306,037	\$ -	\$ 16,150
Due to other funds	-	-	-
Total liabilities	1,306,037	-	16,150
Fund Balances:			
Reserved for encumbrances	5,566,151	60,000	2,542,881
Unreserved	6,229,433	491,029	1,104,996
Total fund balances	11,795,584	551,029	3,647,877
Total liabilities and fund balances	\$ 13,101,621	\$ 551,029	\$ 3,664,027

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2006**

<u>Assets</u>	Special Revenue				
	CARB ERC Bank Fund	LADWP Settlement Fund	State-Emissions Mitigation Fund	Natural Gas Vehicle Partner Fund	State BUG Program Fund
Cash and cash equivalents	\$ 485,236	\$ 339,999	\$ 5,683,768	\$ 291,846	\$ 288,623
Interest receivable	5,645	3,977	68,428	3,607	3,357
Due from other governmental agency	-	-	-	-	-
Due from other funds	-	-	-	-	-
Accounts receivable, net	-	-	-	-	-
Total assets	\$ 490,881	\$ 343,976	\$ 5,752,196	\$ 295,453	\$ 291,980
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ -	\$ -	\$ 172,170	\$ 13,400	\$ -
Due to other funds	-	-	-	-	-
Total liabilities	-	-	172,170	13,400	-
Fund Balances:					
Reserved for encumbrances	27,696	7,263	6,128,107	37,600	-
Unreserved	463,185	336,713	(548,081)	244,453	291,980
Total fund balances	490,881	343,976	5,580,026	282,053	291,980
Total liabilities and fund balances	\$ 490,881	\$ 343,976	\$ 5,752,196	\$ 295,453	\$ 291,980

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2006**

<u>Assets</u>	<u>Special Revenue</u>					<u>Total</u>
	<u>Asthma & Brain Cancer Research Fund</u>	<u>Dry Cleaners Financial Incentives Grant Prog Fund</u>	<u>Rule 1173 Mitigation Fee Fund</u>	<u>CBE / OCE Settlement Agreement Fund</u>	<u>Capital Projects Fund</u>	
Cash and cash equivalents	\$ 341,026	\$ 112,838	\$ 1,489,297	\$ 840,449	\$ -	\$ 31,776,090
Interest receivable	4,085	1,654	17,183	-	-	312,029
Due from other governmental agency	-	-	-	-	-	22,500
Due from other funds	-	-	-	-	-	0
Accounts receivable, net	-	-	-	-	-	1,145,272
Total assets	\$ 345,111	\$ 114,492	\$ 1,506,480	\$ 840,449	\$ -	\$ 33,255,891
 <u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable & accrued liabilities	\$ 46,581	\$ -	\$ -	\$ 50,590	\$ -	\$ 2,122,024
Due to other funds	-	-	-	-	-	1,440,457
Total liabilities	46,581	-	-	50,590	-	3,562,481
 Fund Balances:						
Reserved for encumbrances	235,150	-	-	566,539	-	15,246,991
Unreserved	63,380	114,492	1,506,480	223,320	-	14,446,419
Total fund balances	298,530	114,492	1,506,480	789,859	-	29,693,410
Total liabilities and fund balances	\$ 345,111	\$ 114,492	\$ 1,506,480	\$ 840,449	\$ -	\$ 33,255,891

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006**

	Special Revenue				
	Air Quality Studies Fund	Air Toxics Fund	Advanced Technology Fund	Air Quality Assistance Fund	Clean Fuels Conference Fund
Revenues:					
State grant	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grant	-	-	-	-	10,000
Interest	2,111	45,754	6,966	94,416	-
RECLAIM & executive order mitigation	-	-	-	-	-
Other revenue	-	262,204	-	-	210,199
Total revenues	2,111	307,958	6,966	94,416	220,199
Expenditures:					
Contract and special services	-	10,523	241,971	-	122,608
Other operating expenditures	-	-	-	-	36,159
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	(180,071)	-	-	-
Total expenditures	-	(169,548)	241,971	-	158,767
Excess (deficiency) of revenues over (under) expenditures before transfers	2,111	477,506	(235,005)	94,416	61,432
Other financing sources (uses)					
Transfers in	-	-	-	-	88,500
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	88,500
Net change in fund balances	2,111	477,506	(235,005)	94,416	149,932
Fund balances, July 1, 2005	53,763	658,086	263,183	2,415,146	121,505
Fund balances, June 30, 2006	\$ 55,874	\$ 1,135,592	\$ 28,178	\$ 2,509,562	\$ 271,437

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006**

	Special Revenue		
	Lower-Emission School Bus Fund	Zero Emission Vehicle Incentive Fund	AES Settlement Projects Fund
	Fund	Fund	Fund
Revenues:			
State grant	\$ 5,449,000	\$ -	\$ -
Federal grant	222,500	-	-
Interest	375,189	20,861	163,643
RECLAIM & executive order mitigation	-	-	-
Other	101,500	-	-
Total revenues	<u>6,148,189</u>	<u>20,861</u>	<u>163,643</u>
Expenditures:			
Contract and special services	5,478,594	-	2,059,919
Other operating expenditures	-	-	-
Capital outlay	-	-	-
Uncollectible accounts	-	-	-
Total expenditures	<u>5,478,594</u>	<u>-</u>	<u>2,059,919</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>669,595</u>	<u>20,861</u>	<u>(1,896,276)</u>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>669,595</u>	<u>20,861</u>	<u>(1,896,276)</u>
Fund balances, July 1, 2005	<u>11,125,989</u>	<u>530,168</u>	<u>5,544,153</u>
Fund balances, June 30, 2006	<u>\$ 11,795,584</u>	<u>\$ 551,029</u>	<u>\$ 3,647,877</u>

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006**

	Special Revenue				
	CARB ERC Bank Fund	LADWP Settlement Fund	State-Emissions Mitigation Program Fund	Natural Gas Vehicle Partner Fund	State BUG Program Fund
Revenues:					
State grant	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grant	-	-	-	-	-
Interest	18,542	16,511	233,666	13,396	11,029
RECLAIM & executive order mitigation	-	-	-	-	-
Other	-	-	-	25,000	-
Total revenues	18,542	16,511	233,666	38,396	11,029
Expenditures:					
Contract and special services	-	37,608	1,266,634	121,782	-
Other operating expenditures	-	-	-	2,995	-
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	-	-	-	-
Total expenditures	-	37,608	1,266,634	124,777	-
Excess (deficiency) of revenues over (under) expenditures before transfers	18,542	(21,097)	(1,032,968)	(86,381)	11,029
Other financing sources (uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	(10,000)	-
Total other financing sources (uses)	-	-	-	(10,000)	-
Net change in fund balances	18,542	(21,097)	(1,032,968)	(96,381)	11,029
Fund balances, July 1, 2005	472,339	365,073	6,612,994	378,434	280,951
Fund balances, June 30, 2006	\$ 490,881	\$ 343,976	\$ 5,580,026	\$ 282,053	\$ 291,980

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006**

	Special Revenue			
	Asthma & Brain Cancer Research Fund	Dry Cleaners Financial Incentives Grant Prog Fund	Rule 1173 Mitigation Fee Fund	CBE/OCE Settlement Agreement Fund
Revenues:				
State grant	\$ -	\$ -	\$ -	\$ -
Federal grant	-	-	-	-
Interest	15,852	8,912	67,784	-
RECLAIM & executive order mitigation	-	-	-	-
Other	-	-	-	-
Total revenues	<u>15,852</u>	<u>8,912</u>	<u>67,784</u>	<u>-</u>
Expenditures:				
Contract and special services	130,561	245,000	-	210,141
Other operating expenditures	-	-	-	-
Capital outlay	-	-	-	-
Uncollectible accounts	-	-	-	-
Total expenditures	<u>130,561</u>	<u>245,000</u>	<u>-</u>	<u>210,141</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>(114,709)</u>	<u>(236,088)</u>	<u>67,784</u>	<u>(210,141)</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(114,709)</u>	<u>(236,088)</u>	<u>67,784</u>	<u>(210,141)</u>
Fund balances, July 1, 2005	<u>413,239</u>	<u>350,580</u>	<u>1,438,696</u>	<u>1,000,000</u>
Fund balances, June 30, 2006	<u>\$ 298,530</u>	<u>\$ 114,492</u>	<u>\$ 1,506,480</u>	<u>\$ 789,859</u>

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006**

	Special Revenue	
	Capital Projects Fund	Total
Revenues:		
State grant	\$ -	\$ 5,449,000
Federal grant	-	232,500
Interest	-	1,094,632
RECLAIM & executive order mitigation	-	0
Other	53,857	652,760
Total revenues	53,857	7,428,892
Expenditures:		
Contract and special services	-	9,925,341
Other operating expenditures	-	39,154
Capital outlay	53,857	53,857
Uncollectible accounts	-	(180,071)
Total expenditures	53,857	9,838,281
Excess (deficiency) of revenues over (under) expenditures before transfers	-	(2,409,389)
Other financing sources (uses)		
Transfers in	-	88,500
Transfers out	-	(10,000)
Total other financing sources (uses)	-	78,500
Net change in fund balances	-	(2,330,889)
Fund balances, July 1, 2005	-	32,024,299
Fund balances, June 30, 2006	\$ -	\$ 29,693,410

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 June 30, 2006**

	SCAQMD Building Corporation Fund	General Purpose Fund	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 534,603	\$ 15,913	\$ 550,516
Interest receivable	6,063	-	6,063
Due from other funds	-	-	-
Total assets	\$ 540,666	\$ 15,913	\$ 556,579
<u>Liabilities</u>			
Accounts payable and accrued liabilities	540,666	15,913	556,579
Total liabilities	\$ 540,666	\$ 15,913	\$ 556,579

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
For the Year Ended June 30, 2006**

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>General Purpose Fund</u>				
Assets				
Cash	\$ 42,530	\$ 123,669	\$ 150,286	\$ 15,913
Due from other funds	-	-	-	-
Total assets	<u>42,530</u>	<u>\$ 123,669</u>	<u>\$ 150,286</u>	<u>\$ 15,913</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 42,530	\$ 123,669	\$ 150,286	\$ 15,913
Total liabilities	<u>\$ 42,530</u>	<u>\$ 123,669</u>	<u>\$ 150,286</u>	<u>\$ 15,913</u>
<u>SCAQMD Building Corporation Fund</u>				
Assets				
Cash	\$ 517,017	\$ 17,586	\$ -	\$ 534,603
Interest receivable	3,493	6,063	3,493	6,063
Total assets	<u>\$ 520,510</u>	<u>\$ 23,649</u>	<u>\$ 3,493</u>	<u>\$ 540,666</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 520,510	\$ 23,649	\$ 3,493	\$ 540,666
Total liabilities	<u>\$ 520,510</u>	<u>\$ 23,649</u>	<u>\$ 3,493</u>	<u>\$ 540,666</u>
<u>Total All Agency Funds</u>				
Assets				
Cash	\$ 559,547	\$ 141,255	\$ 150,286	\$ 550,516
Interest receivable	3,493	6,063	3,493	6,063
Due from other funds	-	-	-	-
Total assets	<u>563,040</u>	<u>\$ 147,318</u>	<u>\$ 153,779</u>	<u>\$ 556,579</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 563,040	\$ 147,318	\$ 153,779	\$ 556,579
Total liabilities	<u>\$ 563,040</u>	<u>\$ 147,318</u>	<u>\$ 153,779</u>	<u>\$ 556,579</u>

See independent auditor's report.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
Schedule 1
Net Assets by Component
Last Five Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental Activities					
Investment in capital assets, net of related debt	\$ 4,829,117	4,007,380	5,234,119	6,048,899	7,712,415
Restricted for pension assets	-	-	-	-	736,200
Restricted for special projects/programs	208,910,138	197,959,973	195,731,559	223,952,969	253,867,453
Unrestricted	<u>2,948,477</u>	<u>5,322,562</u>	<u>2,696,301</u>	<u>11,135,334</u>	<u>24,019,696</u>
Total governmental activities net assets	<u>\$ 216,687,732</u>	<u>207,289,915</u>	<u>\$ 203,661,979</u>	<u>\$ 241,137,202</u>	<u>\$ 286,335,764</u>
Business-type Activities					
Investment in capital assets, net of related debt	-	565,013	487,546	400,375	313,177
Unrestricted	<u>40,714</u>	<u>47,319</u>	<u>62,362</u>	<u>81,160</u>	<u>72,947</u>
Total business-type activities net assets	<u>\$ 40,714</u>	<u>612,332</u>	<u>\$ 549,908</u>	<u>\$ 481,535</u>	<u>\$ 386,124</u>
Primary Government					
Investment in capital assets, net of related debt	4,829,117	4,572,393	5,721,665	6,449,274	8,025,592
Restricted for pension asset	-	-	-	-	736,200
Restricted for special projects/programs	208,910,138	197,959,973	195,731,559	223,952,969	253,867,453
Unrestricted	<u>2,989,191</u>	<u>5,369,881</u>	<u>2,758,663</u>	<u>11,216,494</u>	<u>24,092,643</u>
Total primary government net assets	<u>\$ 216,728,446</u>	<u>207,902,247</u>	<u>\$ 204,211,887</u>	<u>\$ 241,618,737</u>	<u>\$ 286,721,888</u>

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Schedule 2

Changes in Net Assets

Last Five Fiscal Years

(accrual basis of accounting)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental Activities					
Advance clean air technology	\$ 4,509,988	\$ 5,933,504	\$ 7,255,854	\$ 5,011,874	\$ 5,808,530
Ensure compliance with clean air rules	33,020,627	33,440,503	38,536,722	37,666,189	36,727,226
Customer service	9,557,298	10,035,584	10,965,904	10,532,066	11,592,984
Develop programs to achieve clean air	5,654,636	6,213,755	7,910,778	7,106,133	7,811,791
Develop rules to achieve clean air	6,618,208	6,563,362	7,915,483	8,130,305	8,046,177
Monitoring air quality	9,889,813	10,032,083	11,883,527	11,591,430	11,794,227
Permit review	20,714,836	18,937,964	21,408,261	21,403,924	23,191,423
Policy support	2,238,319	2,559,042	2,523,809	2,954,538	2,948,274
Special funds activities	85,826,567	94,144,240	62,422,513	59,525,817	64,308,902
Total governmental activities expenses	<u>178,030,292</u>	<u>187,860,037</u>	<u>170,822,851</u>	<u>163,922,276</u>	<u>172,229,535</u>
Business-type Activities:					
Clean Air Store	1,807	908	936	662	3,653
CNG fueling station	-	81,005	152,547	165,135	198,788
Total business-type activities expenses	<u>1,807</u>	<u>81,913</u>	<u>153,483</u>	<u>165,797</u>	<u>202,441</u>
Total primary government expenses	<u>\$ 178,032,099</u>	<u>\$ 187,941,950</u>	<u>\$ 170,976,334</u>	<u>\$ 164,088,073</u>	<u>\$ 172,431,976</u>
Program Revenues					
Government Activities:					
Fees and Charges					
Stationary sources	\$ 65,737,827	\$ 62,835,710	\$ 61,932,425	\$ 64,925,373	\$ 68,792,294
Mobile sources	10,272,434	10,245,290	10,787,342	14,716,865	20,991,833
Operating grants and subventions	10,434,312	7,434,924	9,679,283	8,100,573	8,035,387
Restricted special revenues sources	118,891,866	81,194,075	60,731,099	87,747,227	94,223,386
Total governmental activities program revenues	<u>205,336,439</u>	<u>161,709,999</u>	<u>143,130,149</u>	<u>175,490,038</u>	<u>192,042,900</u>
Business-type Activities:					
Clean Air Store/CNG fueling station	1,437	45,055	89,947	97,424	123,625
Total business-type activities program revenues	<u>1,437</u>	<u>45,055</u>	<u>89,947</u>	<u>97,424</u>	<u>123,625</u>
Total primary government program revenues	<u>\$ 205,337,876</u>	<u>\$ 161,755,054</u>	<u>\$ 143,220,096</u>	<u>\$ 175,587,462</u>	<u>\$ 192,166,525</u>
Net (Expense) Revenue					
Governmental activities	\$ 27,306,147	(26,150,038)	(27,692,702)	\$ 11,567,762	\$ 19,813,365
Business-type activities	(370)	(36,858)	(63,536)	(68,373)	(78,816)
Total primary government net (expenses) revenue	<u>\$ 27,305,777</u>	<u>\$ (26,186,896)</u>	<u>\$ (27,756,238)</u>	<u>\$ 11,499,389</u>	<u>\$ 19,734,549</u>
General Revenues and Other Changes in Net Assets					
Governmental Activities:					
Grants and subventions - restricted to non-specific stationary source programs	\$ 2,956,739	\$ 2,965,584	\$ 2,962,415	\$ 2,964,713	\$ 2,962,539
Mobile sources - restricted to non-specific mobile source programs	6,285,053	5,621,411	6,229,842	6,282,933	-
Interest	1,605,953	1,547,626	845,849	1,273,901	2,887,395
Lease revenue	231,099	348,743	372,707	338,961	364,326
Penalties/settlement	4,559,936	5,795,147	12,232,181	11,295,895	16,074,370
Subscriptions	55,628	46,565	36,301	29,512	19,214
Other	760,551	407,016	799,732	2,992,685	545,430
Transfers	(25,000)	(608,476)	-	-	16,595
Total governmental activities	<u>16,429,959</u>	<u>16,123,616</u>	<u>23,479,027</u>	<u>25,178,600</u>	<u>22,869,869</u>
Business-type Activities					
Interest	-	-	1,112	-	-
Transfers	25,000	608,476	-	-	(16,595)
Total business-type activities	<u>25,000</u>	<u>608,476</u>	<u>1,112</u>	<u>-</u>	<u>(16,595)</u>
Total primary government revenue	<u>\$ 16,454,959</u>	<u>\$ 16,732,092</u>	<u>\$ 23,480,139</u>	<u>\$ 25,178,600</u>	<u>\$ 22,853,274</u>
Change in Net Assets					
Governmental activities	\$ 43,736,106	\$ (10,026,422)	\$ (4,213,675)	\$ 36,746,362	\$ 42,683,233
Business-type activities	24,630	571,618	(62,424)	(68,373)	(95,411)
Total primary government	<u>\$ 43,760,736</u>	<u>\$ (9,454,804)</u>	<u>\$ (4,276,099)</u>	<u>\$ 36,677,989</u>	<u>\$ 42,587,822</u>

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 3
 Fund Balances of Government Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 20,390,490	\$ 23,247,196	\$ 26,024,018	\$ 4,985,280	\$ 8,632,387	\$ 9,695,144	\$ 7,616,882	\$ 7,732,923	\$ 4,778,503	\$ 4,841,814
Unreserved	<u>18,224,689</u>	<u>17,008,363</u>	<u>15,685,167</u>	<u>20,491,915</u>	<u>24,970,898</u>	<u>34,425,246</u>	<u>37,177,128</u>	<u>33,709,091</u>	<u>45,023,178</u>	<u>56,475,321</u>
Total general fund	<u>\$ 38,615,179</u>	<u>\$ 40,255,559</u>	<u>\$ 41,709,185</u>	<u>\$ 25,477,195</u>	<u>\$ 33,603,285</u>	<u>\$ 44,120,390</u>	<u>\$ 44,794,010</u>	<u>\$ 41,442,014</u>	<u>\$ 49,801,681</u>	<u>\$ 61,317,135</u>
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 82,398,441	\$ 75,231,282	\$ 70,495,534	\$ 78,570,628	\$ 91,723,747
Unreserved, reported in:										
Special revenue funds	45,646,129	43,597,523	47,643,548	84,472,743	175,866,922	126,511,697	122,728,691	125,236,025	145,382,341	162,143,706
Capital Projects funds	-	-	76,840	-	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 45,646,129</u>	<u>\$ 43,597,523</u>	<u>\$ 47,720,388</u>	<u>\$ 84,472,743</u>	<u>\$ 175,866,922</u>	<u>\$ 208,910,138</u>	<u>\$ 197,959,973</u>	<u>\$ 195,731,559</u>	<u>\$ 223,952,969</u>	<u>\$ 253,867,453</u>

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Schedule 4

Changes in Fund Balances of Government Funds

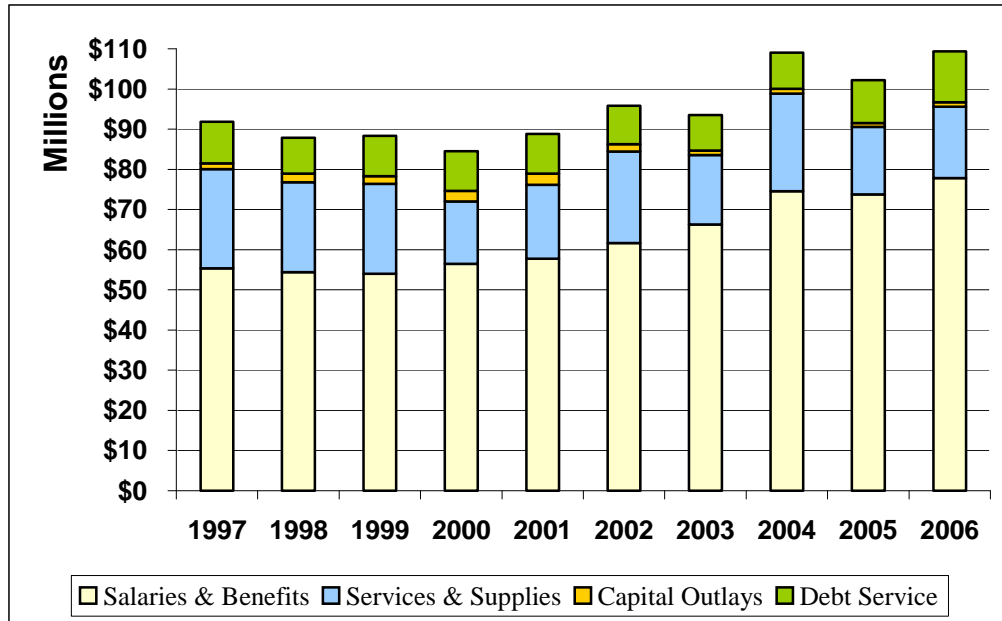
Last Ten Fiscal Years

(modified accrual basis of accounting)

Fiscal Year

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues:										
Emission fees	\$ 21,471,830	\$ 21,497,065	\$ 20,387,407	\$ 24,755,365	\$ 24,318,240	\$ 23,542,903	\$ 20,118,430	\$ 19,497,850	\$ 19,434,549	\$ 33,582,422
Annual operating fees	22,759,235	22,539,400	23,601,408	23,127,214	23,106,793	26,192,638	27,422,331	28,487,923	28,876,817	30,991,226
Permit fees	5,489,596	6,379,855	6,162,848	8,925,225	9,918,394	13,961,148	13,111,610	11,202,036	14,114,680	14,765,144
Clean fuel / Mobile / Stationary Sources	46,707,508	48,105,783	52,380,059	53,517,207	53,876,089	55,982,295	56,942,057	58,177,471	65,197,128	82,389,525
Emission reduction fees					17,223,928	2,300,000	13,054,700	375,000		
Air Toxics	3,153,185	1,452,413	1,098,478	1,233,376	1,753,022	1,413,000	1,575,096	1,429,658	1,614,851	1,186,492
Transportation	1,057,499	602,159	771,013	717,368	649,664	664,733	688,278	748,006	869,554	895,194
State subvention	3,035,134	2,965,942	2,960,026	2,962,521	6,069,654	6,053,883	4,394,639	4,021,970	4,024,268	4,022,094
Federal grant	4,527,415	4,080,561	3,540,119	4,722,731	4,201,547	6,531,262	6,005,869	8,443,715	6,988,187	5,876,040
State grant					53,642,620	40,707,602	6,666,447	10,425,742	11,253,989	6,514,346
Interest	5,322,164	5,574,096	5,755,521	5,938,718	8,549,236	9,576,467	6,384,743	3,678,244	5,444,958	12,087,846
Lease revenue	371,065	124,454	158,917	112,969	141,772	231,099	348,743	372,707	338,961	364,326
Source test/analysis fees	224,956	261,412	193,672	297,975	258,535	308,169	382,502	342,909	321,526	401,487
Hearing Board	302,301	374,061	343,052	262,977	427,769	319,969	276,677	373,924	251,212	655,553
Penalties/settlements	1,602,509	2,534,038	3,217,263	4,352,331	20,180,727	4,583,093	5,795,147	12,232,181	36,295,895	16,074,370
Contracts	11,323	13,757	11,090							
Subscriptions	180,511	112,230	98,258	64,236	63,113	55,628	46,565	36,301	29,512	19,214
Reclaim & executive order mitigation						16,524,066	626,187	601,086	772,526	842,214
Contributions	718,838	1,347,834	588,855	535,463						
Other revenue	1,010,556	9,026,901	3,112,065	12,923,404	6,826,109	13,053,128	14,602,070	6,162,453	6,945,716	4,228,680
Total revenues	117,945,625	126,991,961	124,380,051	144,449,080	231,207,212	222,001,083	178,442,091	166,609,176	202,774,329	214,896,173
Expenditures:										
Salaries and employee benefits	55,391,589	54,400,689	53,982,139	56,450,869	57,712,043	61,650,177	66,242,716	74,539,634	73,791,627	77,858,212
Insurance	825,800	788,917	961,746	1,002,590	963,050	1,034,296	1,031,651	1,110,014	1,044,518	1,193,345
Rent	1,263,120	1,188,716	1,115,376	1,202,269	1,078,350	721,083	725,320	709,158	783,674	776,438
Supplies & merchandise purchased	2,714,061	2,750,937	2,475,922	2,487,057	2,845,119	3,024,880	3,093,574	2,045,772	2,235,088	2,274,844
Contract and special services	23,445,209	29,638,831	27,854,429	31,456,841	36,764,224	74,035,983	99,410,200	74,643,873	73,961,781	72,936,559
Maintenance	1,037,360	870,240	925,734	794,871	786,547	979,146	942,576	1,011,913	995,624	1,120,620
Travel and auto	393,770	418,433	462,841	457,998	446,901	437,566	452,749	445,745	433,606	478,091
Utilities	1,388,202	1,259,348	1,116,489	1,152,793	1,203,225	1,633,992	1,663,243	1,463,778	1,414,156	1,680,754
Communications	634,538	597,709	673,373	772,237	589,937	527,902	524,011	553,238	491,337	463,665
Settlement expense	200,000	310,000								
Uncollectible accounts	197,197	271,068	199,678	225,396	156,094	100,779	121,849	374,712	210,871	(38,037)
Other expenditures	16,490,163	16,353,414	16,588,759	15,925,973	16,122,103	22,016,693	4,289,650	4,201,304	(815,944)	933,008
Capital outlay	1,400,168	2,633,998	2,440,548	2,188,225	3,166,714	2,656,041	1,393,713	2,135,572	1,010,373	1,130,264
Debt service:										
Principal	4,803,780	10,020,493	5,101,064	5,335,818	5,673,289	5,737,655	6,025,000	6,040,000	6,350,000	7,510,000
Interest	5,552,231	5,506,960	4,905,462	4,475,778	4,179,347	3,859,569	2,802,384	2,914,873	4,286,541	5,165,067
Total expenditures	115,737,188	127,009,753	118,803,560	123,928,715	131,688,943	178,415,762	188,718,636	172,189,586	166,193,252	173,482,830
Excess (deficiency) of revenues over (under) expenditures	2,208,437	(17,792)	5,576,491	20,520,365	99,520,269	43,585,321	(10,276,545)	(5,580,410)	36,581,077	41,413,343
Other financing sources (uses):										
Transfer in	70,000	-	-	21,406,545	291,950	547,149	7,398,853	14,700,000	291,950	105,095
Transfer out	(70,000)	(390,434)	-	(21,406,545)	(291,950)	(572,149)	(7,398,853)	(14,700,000)	(291,950)	(88,500)
Total other financing sources (uses)	-	(390,434)	-	-	-	(25,000)	-	-	-	16,595
Net change in fund balances	\$ 2,208,437	\$ (408,226)	\$ 5,576,491	\$ 20,520,365	\$ 99,520,269	\$ 43,560,321	\$ (10,276,545)	\$ (5,580,410)	\$ 36,581,077	\$ 41,429,938
Debt service as a percentage of noncapital expenditures	9.1%	12.5%	8.6%	8.1%	7.7%	5.5%	4.7%	5.3%	6.4%	7.4%

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



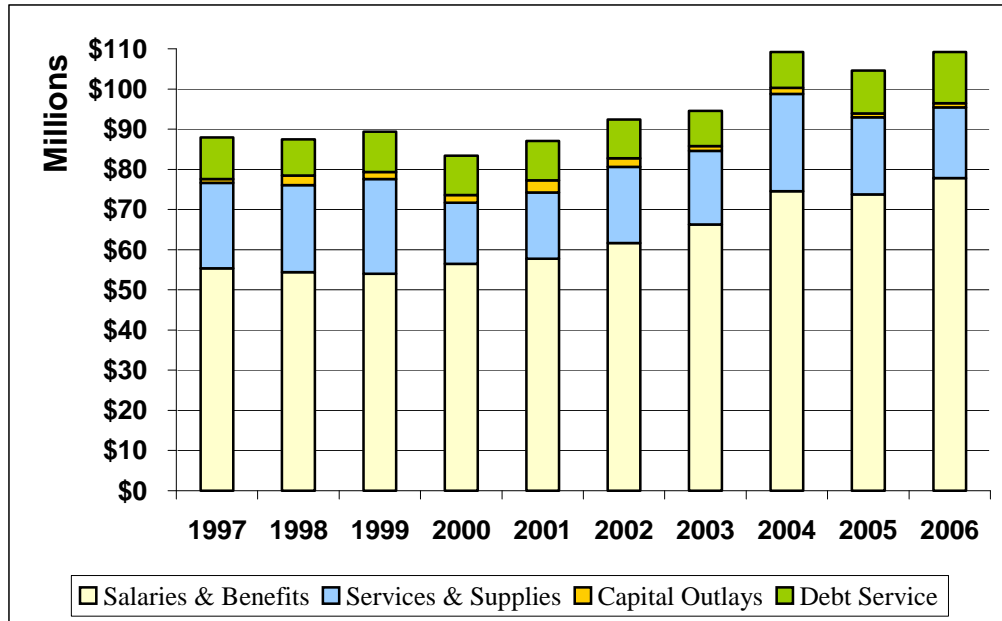
Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1997	\$ 55,391,589	\$ 24,694,376	\$ 1,377,936	\$ 10,356,011	\$ 91,819,912
1998	54,400,689	22,365,484	2,139,131	8,981,803	87,887,107
1999	53,982,139	22,428,955	1,916,009	10,006,526	88,333,629
2000	56,450,869	15,541,026	2,639,293	9,857,197	84,488,385
2001	57,712,043	18,438,222	2,778,896	9,852,641	88,781,802
2002	61,650,177	22,773,687	1,859,416	9,554,569	95,837,849
2003	66,242,716	17,275,182	1,155,130	8,827,384	93,500,412
2004	74,539,634	24,273,579	1,266,240	8,954,873	109,034,326
2005	73,791,627	16,803,682	949,713	10,636,541	102,181,563
2006	77,858,212	17,719,906	1,100,222	12,675,067	109,353,407

See Notes Associated with Financial Charts page X.

Source:

South Coast Air Quality Management District Audited Financial Statements

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



Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1997	\$ 55,391,589	\$ 21,214,777	\$ 999,917	\$ 10,356,011	\$ 87,962,294
1998	54,400,689	21,702,940	2,353,895	8,981,803	87,439,327
1999	53,982,139	23,638,243	1,743,935	10,006,526	89,370,843
2000	56,450,869	15,238,185	1,914,777	9,811,596	83,415,427
2001	57,712,043	16,517,122	2,998,691	9,852,641	87,080,497
2002	61,650,177	18,967,367	2,142,659	9,597,224	92,357,427
2003	66,242,716	18,352,510	1,151,786	8,827,384	94,574,396
2004	74,539,634	24,245,021	1,490,545	8,954,873	109,230,073
2005	73,791,627	19,191,298	942,278	10,636,541	104,561,744
2006	77,858,212	17,564,242	1,076,407	12,675,067	109,173,928

See Notes Associated with Financial Charts page X.

Source:

South Coast Air Quality Management District Audited Financial Statements

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 7
 Debt Capacity
 Ratios of Outstanding Debt by Type
 Last Ten Fiscal Years
 (amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities			Total Primary Government	Percentage of Total Revenues (a)	Per Capita (b)
	Installment Sale Revenue Bonds	Pension Obligation Bonds	Equipment Installment Purchase Agreement			
1997	\$122,406	\$75,563	\$99	\$198,068	225.97%	\$ 13
1998	115,511	73,575	-	189,086	212.27%	13
1999	97,840	70,508	-	168,348	185.36%	11
2000	91,334	67,443	-	158,777	179.23%	10
2001	84,834	64,376	-	149,210	156.72%	10
2002	77,081	61,310	-	138,391	134.49%	9
2003	70,610	58,243	-	128,853	132.50%	8
2004	64,720	133,778	-	198,498	187.48%	12
2005	58,661	129,201	-	187,862	166.37%	11
2006	52,601	122,585	-	175,186	145.17%	10

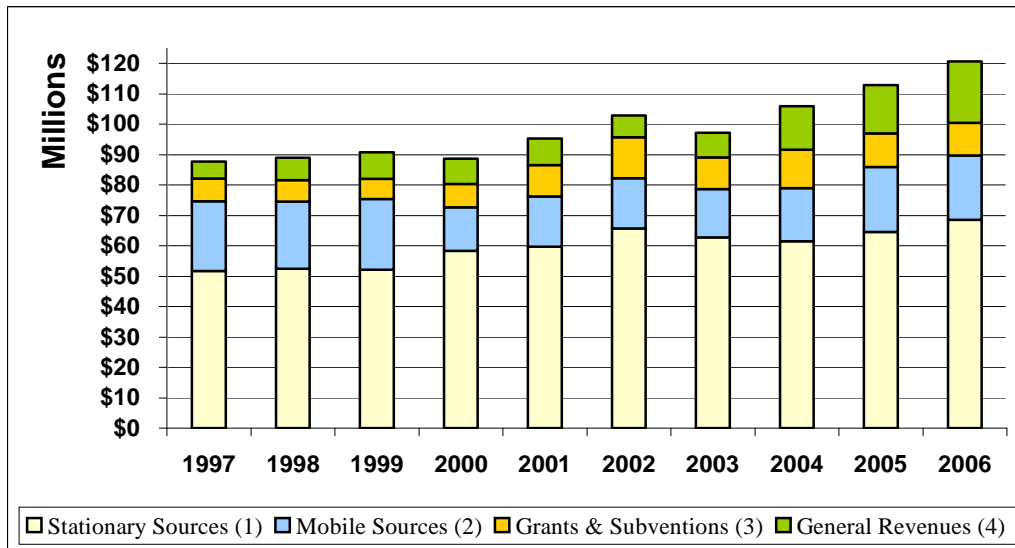
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The South Coast Air Quality Management District is a regional government and is not authorized to issue long-term debt (General Obligation Bonds). The Installment Sale Revenue Bonds were issued by the South Coast Air Quality Management District Building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

(a) These percentages are calculated using Total Revenues, Schedule 8 on page 78.

(b) See Schedule 13 on page 86 for population data.

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



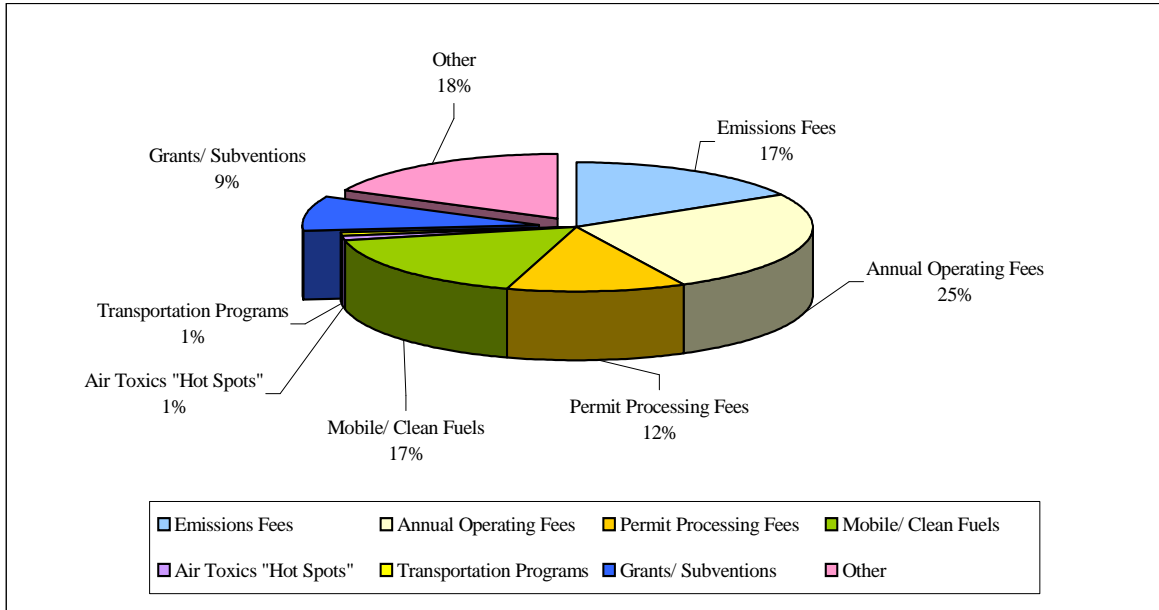
Year	Stationary Sources (1)	Mobile Sources (2)	Grants & Subventions (3)	General Revenues (4)	Total Revenues
1997	\$ 51,675,393	\$ 22,903,017	\$ 7,562,549	\$ 5,510,088	\$ 87,651,047
1998	52,437,988	22,106,384	7,046,503	7,488,832	89,079,707
1999	52,179,703	23,259,971	6,500,145	8,884,650	90,824,469
2000	58,401,760	14,291,583	7,685,252	8,211,387	88,589,982
2001	59,741,735	16,520,766	10,271,201	8,672,885	95,206,587
2002	65,737,827	16,557,487	13,391,051	7,213,167	102,899,532
2003	62,835,710	15,866,701	10,400,508	8,145,097	97,248,016
2004	61,461,482	17,488,127	12,641,698	14,286,770	105,878,077
2005	64,613,635	21,311,536	11,065,286	15,930,954	112,921,411
2006	68,483,189	21,256,610	10,680,461	20,252,527	120,672,787

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

See Notes Associated with Financial Charts page X.

Source:
 South Coast Air Quality Management District Audited Financial Statements

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 Schedule 9
 Revenues by Fee Source
 General Fund
 FY 2005-06



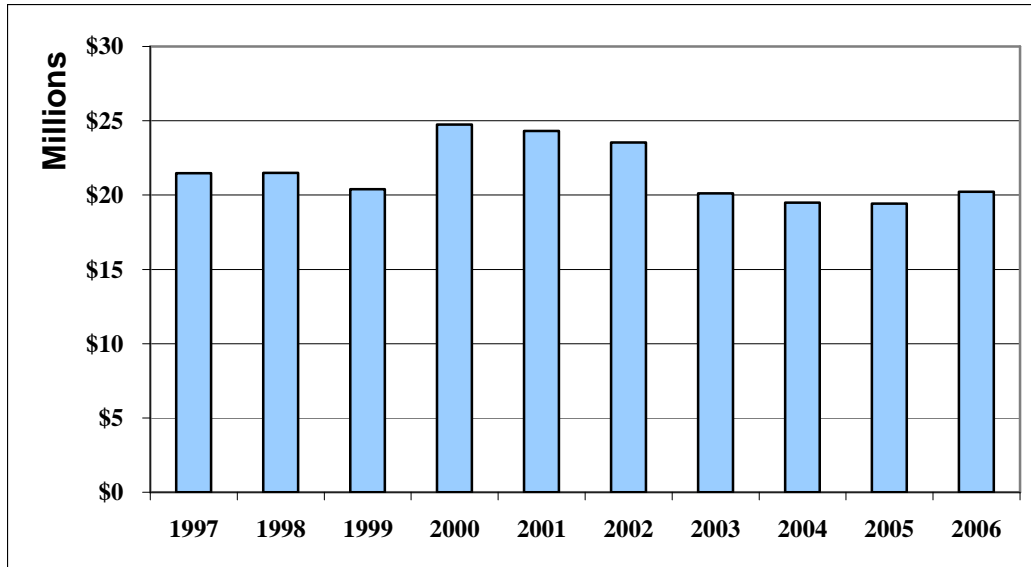
Fee Source Revenue									
Year	Emissions Fees	Annual Operating Fees	Permit Processing Fees	Mobile/ Clean Fuels	Air Toxics "Hot Spots"	Transportation Programs	Grants/ Subventions	Other	Total
1997	\$ 21,471,830	\$ 22,759,235	\$ 5,489,596	\$ 21,845,518	\$ 1,416,152	\$ 1,057,499	\$ 7,562,549	\$ 6,048,668	\$ 87,651,047
1998	21,497,065	22,539,400	6,379,855	21,504,225	1,372,438	602,159	7,046,503	8,138,062	89,079,707
1999	20,387,407	23,601,408	6,162,848	22,488,958	1,480,226	771,013	6,500,145	9,432,464	90,824,469
2000	24,755,365	23,127,214	8,925,225	13,574,215	1,033,004	717,368	7,685,252	8,772,339	88,589,982
2001	24,318,240	23,106,793	9,918,394	15,871,102	1,712,004	649,664	10,271,201	9,359,189	95,206,587
2002	23,542,903	26,192,638	13,961,148	15,892,754	1,413,000	664,733	13,391,051	7,841,305	102,899,532
2003	20,118,430	27,422,331	13,111,610	15,178,423	1,524,160	688,278	10,400,508	8,804,276	97,248,016
2004	19,497,850	28,487,923	11,202,036	16,740,121	1,556,840	748,006	12,641,698	15,003,603	105,878,077
2005	19,434,549	28,876,817	14,114,680	20,441,982	1,614,851	869,554	11,065,286	16,503,692	112,921,411
2006	20,229,322	30,991,226	14,765,144	20,361,416	1,440,457	895,194	10,680,461	21,309,567	120,672,787

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

See Notes Associated with Financial Charts page X.

Source:
 South Coast Air Quality Management District Audited Financial Statements

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



Year	Emission Fees
1997	\$ 21,471,830
1998	21,497,065
1999	20,387,407
2000	24,755,365
2001	24,318,240
2002	23,542,903
2003	20,118,430
2004	19,497,850
2005	19,434,549
2006	20,229,322

See Notes Associated with Financial Charts page X.

Source: South Coast Air Quality Management District Audited Financial Statements

Notes Associated with Financial Charts

Schedule 5 - Expenditures by Major Object (General Fund Budgetary Basis)

- 2006 was the first year that both principal and interest expenditures were paid for 2004 Pension Obligation Bonds (POBs) issued late in FY 2003-04. (No principal was due for 2004 POBs in 2005).
- The increase in Salaries and Employee Benefits expenditures from 2005 to 2006 relates to labor contract adjustments implemented in 2006.
- Pension Obligation Bonds issued late in FY 2003-04 increased debt service expenditures in 2005.
- The increase in Services and Supplies between 2003 and 2004 relates to \$3M in litigation expense for enforcement and \$2M in one-time Federal pass-through funds for the Green Airport Initiative.
- The increase in Salaries and Benefits between 2003 and 2004 is due to rising retirement rates.
- The 2000 and 2002 variances in Debt Service between the Budgetary Basis and the GAAP Basis relate to prior-year encumbrances for lease payments on cargo vans.

Schedule 6 - Expenditures by Major Object (General Fund GAAP Basis)

- 2006 was the first year that both principal and interest expenditures were paid for 2004 Pension Obligation Bonds (POBs) issued late in FY 2003-04. (No principal was due for 2004 POBs in 2005).
- The increase in Salaries and Employee Benefits expenditures from 2005 to 2006 relates to labor contract adjustments implemented in 2006.
- Pension Obligation Bonds issued late in FY 2003-04 increased debt service expenditures in 2005.
- The increase in Services and Supplies between 2003 and 2004 relates to \$3M in litigation expense for enforcement and \$2M in one-time Federal pass-through funds for the Green Airport Initiative.
- The increase in Salaries and Benefits between 2003 and 2004 is due to rising retirement rates.
- The 2000 and 2002 variances in Debt Service between the Budgetary Basis and the GAAP Basis relate to prior-year encumbrances for lease payments on cargo vans.

Schedule 8 - Revenues by Major Source (General Fund)

- The increase in Stationary Sources Revenue in 2006 relates to the fee increase for Annual Operating Fees that took effect on July 1, 2005.
- General revenues increased in 2006 because the South Coast AQMD received several one-time large penalties/settlements from facilities that were found to be not in compliance with SCAQMD rules and regulations.
- Mobile Sources revenue increased in 2005 due to reimbursements for Clean Fuels projects and an increase in the number of registered vehicles.
- The increase in Stationary Source revenue in 2005 relates to a permit processing fee increase, additional expedited permit processing fees, and an increase in permit processing fee adjustments over the prior year.
- The increase in General Revenues in 2004 relates to a substantial penalty settlement.
- The increase in 2001 and 2002 Grants and Subventions revenue relates to supplemental compliance grants and the increase in 2004 is associated with one-time Federal pass-through funds for the Green Airport Initiative.
- The decrease in Mobile Sources revenue in 2000 is due to the creation of a special Clean Fuels fund in September 1999 once the funding was re-authorized.

Schedule 9 - Revenues by Fee Source (General Fund)

- Other revenues increased in 2006 because the South Coast AQMD received several one-time large penalties/settlements from facilities that were found to be not in compliance with SCAQMD rules and regulations.
- Annual Operating Fees increased in 2006 due to the fee increase that took effect on July 1, 2005.
- Mobile Sources revenue increased in 2005 due to reimbursements for Clean Fuels projects and an increase in the number of registered vehicles.
- The increase in Stationary Source revenue in 2005 relates to a permit processing fee increase, additional expedited permit processing fees, and an increase in permit processing fee adjustments over the prior year.
- The increase in Other Revenues in 2004 relates to a substantial penalty settlement.

Schedule 10 – Emission Fee Revenues

- The trend shows a continued reduction in emission fee revenues due to lower emissions as a result of additional emission controls placed on the Basin's emitters. The small increase in 2006 is due to a fee increase that was effective July 1, 2005. The increase in emission fee revenues in fiscal years 2000-2002 relates to additional emission fee payments associated with the generation of increased emissions during the California energy crisis.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
Schedule 11
Revenue Capacity
Largest Payers of Emission-Based Fees at a Single Location
Current Year and Ten Years Ago

Payer	FY 2005-06			FY 1995-96		
	Payment	Rank	% of Total Emission Fees	Payment	Rank	% of Total Emission Fees
BP West Coast Products LLP* (formerly ARCO)	\$ 2,433,478	1	12.0%	\$ 2,767,707	1	11.77%
Chevron Products	2,239,435	2	11.1%	2,381,582	2	10.1%
ExxonMobil Corporation (formerly Mobil Oil Corporation)	1,782,362	3	8.8%	1,310,977	4	5.6%
Equilon Enterprises LLC Shell Oil Products* (formerly Texaco Refining)	991,451	4	4.9%	944,254	5	4.0%
ConocoPhillips* (formerly Union Oil)	983,834	5	4.9%	1,386,114	3	5.9%
Ultramar, Inc.	646,354	6	3.2%	612,943	7	2.6%
California Portland Cement	606,339	7	3.0%	920,383	6	3.9%
ConocoPhillips* (formerly Unocal Refining)	382,130	8	1.9%	604,661	8	2.6%
Rhodia, Inc.	274,845	9	1.4%	-	-	-
BP West Coast Products LLP* (formerly ARCO CQC Kiln)	255,127	10	1.3%	267,698	10	1.1%
Lasco Bathware	252,920	11	1.3%	-	-	-
City of Long Beach, SERRF Project	178,580	12	0.9%	-	-	-
Dart Container Corporation	173,053	13	0.9%	-	-	-
Southern California Gas Company	147,175	14	0.7%	170,573	16	0.7%
Paramount Petroleum Corporation	142,855	15	0.7%	181,172	14	0.8%
Anheuser-Busch, Inc.	135,840	16	0.7%	-	-	-
Ball Metal Beverage Container Corporation	116,811	17	0.6%	-	-	-
Los Angeles County Sanitation District	105,525	18	0.5%	-	-	-
City of Los Angeles, DWP*	102,518	19	0.5%	171,153	15	0.7%
Colmac Energy, Inc.	100,921	20	0.5%	-	-	-
Owens-Brockway Glass Container	-	-	-	379,018	9	1.6%
Southern California Edison*	-	-	-	255,283	11	1.1%
Southern California Edison*	-	-	-	198,678	12	0.8%
City of Los Angeles, DWP*	-	-	-	196,010	13	0.8%
Reynolds Metals Company	-	-	-	160,042	17	0.7%
Avery Dennison	-	-	-	149,574	18	0.6%
Equilon Enterprises* (formerly Shell Oil Products)	-	-	-	143,947	19	0.6%
TABC, Inc.	-	-	-	133,282	20	0.6%
Total Paid by Largest Payers at a Single Location	<u>\$ 12,051,553</u>		59.6%	<u>\$ 13,335,051</u>		56.7%
Total Emissions-based Fees Paid by All Emitters	<u>\$ 20,229,322</u>			<u>\$ 23,521,174</u>		

* Located at separate sites.

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

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

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

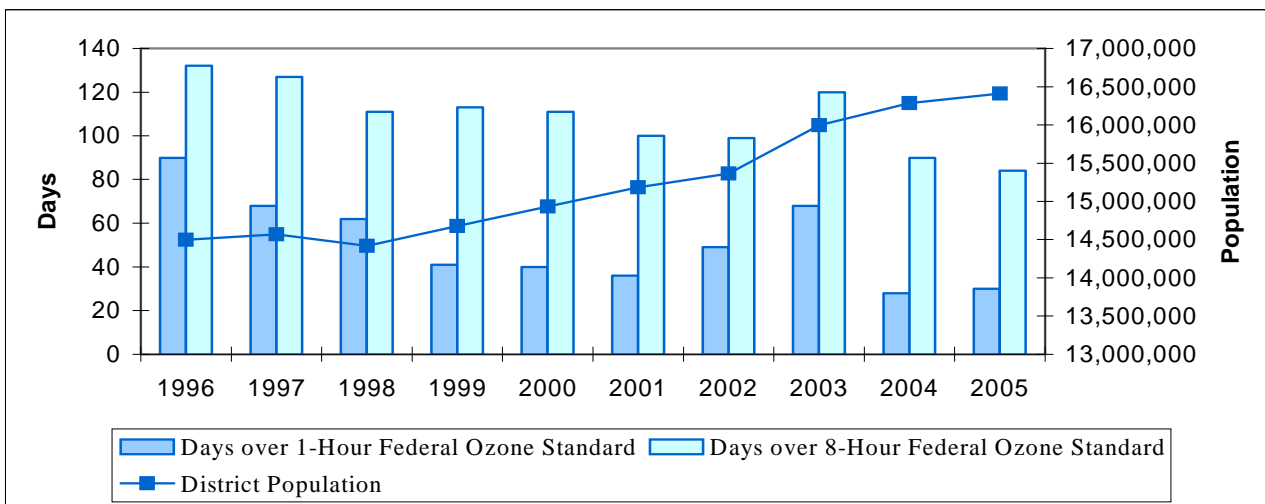
Orange County is the second most populated county in the state and lies south of Los Angeles County. When created in 1889, Orange County was named for its abundance of orange groves and thriving agricultural industry. Today, the largest industry employers are trade, transportation, and utilities, professional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

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

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

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

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



Year	Days over 1-Hour Federal Ozone Standard	Days over 8-Hour Federal Ozone Standard	District Population
1996	90	132	14,497,361
1997	68	127	14,570,394
1998	62	111	14,418,809
1999	41	113	14,676,671
2000	40	111	14,934,529
2001	36	100	15,184,359
2002	49	99	15,362,284
2003	68	120	15,997,078
2004	28	90	16,284,400
2005	30	84	16,409,969

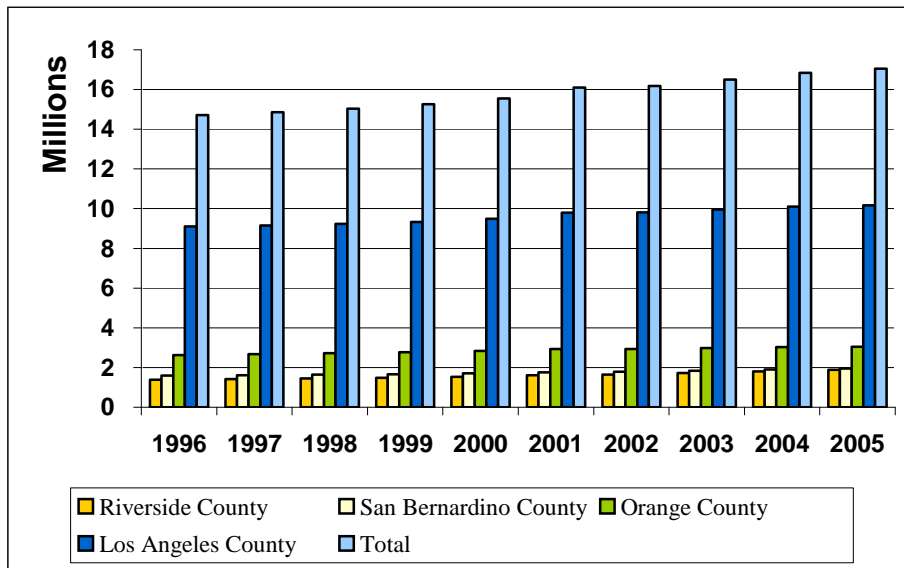
Notes:

- The average number of days in the Basin exceeding the federal standard over the three-year period of 1999-01 decreased by 80% for ozone and by 97% for carbon monoxide from the 1976-78 period.
- The average number of days in the Basin exceeding the federal PM10 standard decreased by 86% between the 1985-87 and 1999-01 periods.
- Favorable weather conditions and continued implementation of the air pollution control strategy contributed to the significant decrease in Days over the 1-Hour Ozone Standard in 2004 and 2005.
- In 2005, the federal government implemented the 8-hour ozone National Ambient Air Quality Standard.

Sources:

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

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

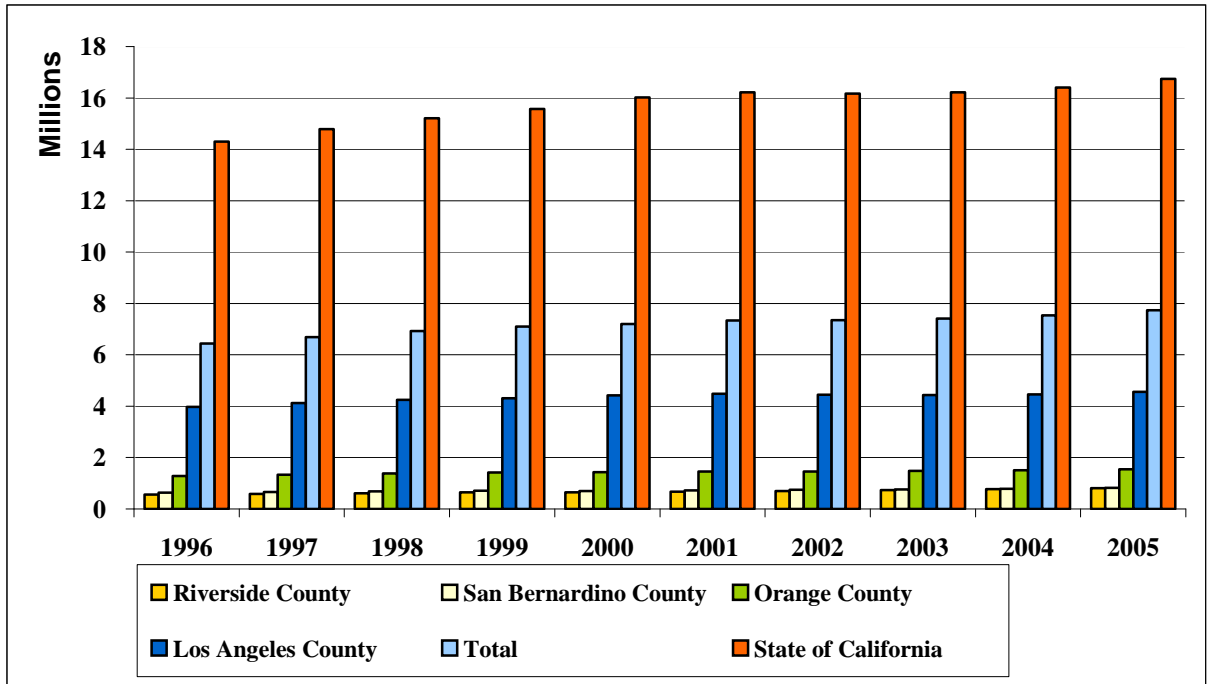


Year	Riverside County	San Bernardino County	Orange County	Los Angeles County	Total	% Increase
1996	1,391,800	1,590,800	2,625,300	9,104,700	14,712,600	0.54%
1997	1,420,600	1,613,500	2,672,800	9,147,100	14,854,000	0.96%
1998	1,451,400	1,637,900	2,724,500	9,225,800	15,039,600	1.25%
1999	1,490,500	1,666,600	2,776,100	9,330,100	15,263,300	1.49%
2000	1,533,800	1,701,700	2,829,800	9,487,400	15,552,700	1.90%
2001	1,609,400	1,764,300	2,925,700	9,802,800	16,102,200	3.53%
2002	1,645,300	1,788,500	2,930,500	9,817,400	16,181,700	0.49%
2003	1,719,000	1,842,100	2,975,400	9,966,200	16,502,700	1.98%
2004	1,807,858	1,897,950	3,022,613	10,107,451	16,835,872	2.02%
2005	1,888,311	1,950,806	3,047,054	10,166,417	17,052,588	1.29%

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

Source:
 California Department of Finance - Demographic Research Unit

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

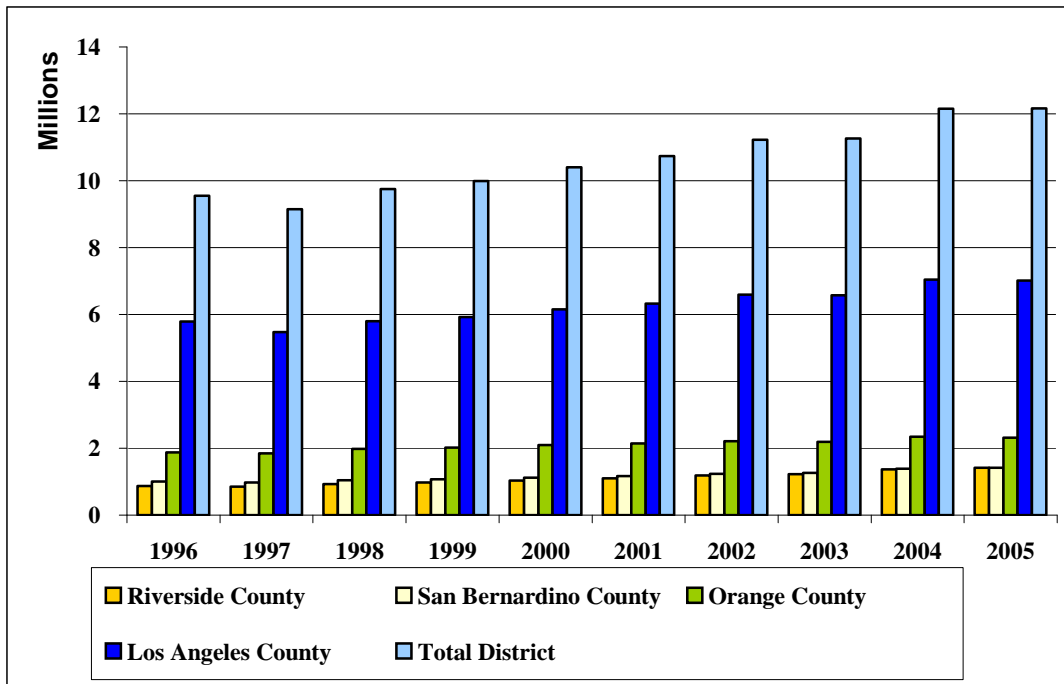


Year	San				Total	State of California
	Riverside County	Bernardino County	Orange County	Los Angeles County		
1996	563,100	634,300	1,280,400	3,967,800	6,445,600	14,303,500
1997	589,600	658,600	1,328,200	4,117,000	6,693,400	14,780,800
1998	615,900	680,100	1,385,300	4,246,100	6,927,400	15,203,700
1999	653,600	712,600	1,422,100	4,309,400	7,097,700	15,566,900
2000	644,100	703,800	1,428,700	4,424,900	7,201,500	16,024,300
2001	671,200	725,000	1,452,800	4,483,400	7,332,400	16,220,000
2002	701,100	742,100	1,454,500	4,445,800	7,343,500	16,168,200
2003	731,000	757,100	1,482,400	4,436,900	7,407,400	16,212,600
2004	773,700	787,400	1,512,800	4,465,300	7,539,200	16,407,900
2005	805,800	820,100	1,541,800	4,564,700	7,732,400	16,746,900

Source:

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

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



Year	Riverside County	San Bernardino County	Orange County	Los Angeles County	Total District
1996	873,251	1,007,310	1,874,855	5,791,836	9,547,252
1997	854,963	971,743	1,850,067	5,474,649	9,151,422
1998	928,902	1,040,583	1,983,612	5,796,505	9,749,602
1999	972,920	1,070,746	2,019,066	5,926,920	9,989,652
2000	1,038,067	1,118,158	2,091,397	6,155,565	10,403,187
2001	1,100,221	1,168,442	2,140,909	6,323,102	10,732,674
2002	1,182,492	1,238,451	2,207,172	6,595,178	11,223,293
2003	1,221,720	1,266,233	2,196,060	6,578,648	11,262,661
2004	1,365,087	1,391,982	2,346,741	7,044,975	12,148,785
2005	1,411,893	1,417,323	2,317,229	7,014,718	12,161,163

* 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 12 million for 2005.

Source:

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

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

FUNCTION:	Full-Time Equivalent Employees as of June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Executive Office	5	5	9	8	15	9	8	11	11	11
Clerk of the Boards	6	6	6	6	6	6	5	6	6	6
District Counsel	13	13	12	12	11	10	11	10	10	10
District Prosecutor	16	17	18	16	14	22	23	23	22	21
Finance	37	38	43	43	43	45	46	44	45	43
Administrative & Human Resources	48	46	33	34	33	37	37	34	34	34
Information Management	42	44	43	47	46	46	48	47	45	45
Planning, Rule Development & Area Sources	87	87	131	104	93	99	116	116	110	108
Public Affairs	45	42	41	64	59	52	42	36	34	36
Science & Technology Advancement	119	115	118	121	130	142	141	136	132	136
Engineering & Compliance	<u>309</u>	<u>303</u>	<u>268</u>	<u>270</u>	<u>279</u>	<u>303</u>	<u>295</u>	<u>289</u>	<u>284</u>	<u>293</u>
Total	727	716	722	725	729	771	772	752	733	743

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

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

<u>Program Category</u>	<u>Fiscal Year</u>					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Advance Clean Air Technology						
Contracts awarded	158	287	411	211	263	180
Total Funding awarded	\$ 33,713,906	\$ 96,287,361	\$ 74,782,923	\$ 36,644,126	\$ 54,723,323	\$ 79,893,504
Ensure Compliance with Clean Air Rules						
Inspections	42,386	45,440	50,868	48,898	45,702	35,161
Notices of Violations	2,666	2,922	3,558	2,408	2,412	1,759
Hearing Board Orders for Abatement	n/a	47	74	58	81	61
Hearing Board Appeals	n/a	21	12	18	23	12
Customer Service						
Public Information Requests	9,967	5,615	7,257	5,555	5,477	4,956
Community/Public Meetings attended	112	72	84	53	92	118
Small Business Assistance Contacts	n/a	n/a	1,826	3,979	3,641	1,812
Develop Programs to Achieve Clean Air						
Transportation Plans processed	1,460	1,360	1,323	1,316	1,402	1,426
Emission Inventory Updates	272	642	289	126	359	229
Develop Rules to Achieve Clean Air						
Rules Developed	61	32	29	38	59	35
Monitoring Air Quality						
Samples Analyzed by the Laboratory	16,096	22,730	24,186	26,618	34,174	37,889
Source Testing Analyses/Evaluations/Reviews	533	484	649	752	706	598
Timely Review of Permits						
Applications Processed	11,975	17,844	10,925	10,406	11,459	9,747
Applications Received	10,970	11,086	10,138	10,431	10,996	9,222
Policy Support						
News releases	62	38	28	41	34	48
Media Calls	1,250	1,300	1,350	1,300	1,400	n/a
Media Inquiries Completed	n/a	n/a	n/a	n/a	n/a	268

South Coast Air Quality Management District

Demographic and Miscellaneous Statistics

<u>Established:</u>	February 1, 1977
<u>Area Covered:</u>	10,743 Square Miles
<u>Counties Included in District:</u>	All of Orange County and parts of Los Angeles, Riverside, and San Bernardino Counties
<u>Population:</u>	16,409,969 (In 2005)
<u>Transportation:</u>	Two transcontinental railroads – Burlington Northern Santa Fe and the Union Pacific Six Commercial Airports – Los Angeles International, Burbank, Long Beach, Ontario International, Orange County, and Palm Springs Freeways – Three major interstate freeways including four bypass routes, U.S. 101, and nine State freeway routes Two major adjoining ports – Port of Long Beach and Port of Los Angeles
<u>Visitor Destinations:</u>	Disneyland, Knott’s Berry Farm, Magic Mountain, motion picture and television studios and the Rose Bowl
<u>Number of Registered Vehicles:</u>	12,032,914 (In 2005)
<u>Average Daily Miles Traveled Per Vehicle:</u>	29 (2005 data)
<u>Examples of Stationary Sources of Air Pollution Regulated:</u>	Oil Refineries, power plants, paint spray booths, incinerators, manufacturing facilities, dry cleaners, and service stations
<u>Number of Sources:</u>	Over 27,000 operating locations with approximately 78,000 permits.
<u>Number of Air Monitoring Stations:</u>	35
<u>SCAQMD Full-time Authorized Positions:</u>	804
<u>Adopted FY 2006-07 Budget:</u>	\$119,123,676
<u>Key Federal, State, and Local Air Agencies:</u>	EPA Region IX (Environmental Protection Agency), CARB (California Air Resources Board), CAPCOA (California Air Pollution Control Officer’s Association), STAPPA (State and Territorial Air Pollution Program Administrators), ALAPCO (Association of Local Air Pollution Control Officials). There are 35 local air pollution control districts in California.

Key Historical Dates in Southland Smog Control

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



**South Coast
Air Quality Management District**

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