



**South Coast  
Air Quality  
Management  
District**  
Diamond Bar, California



# Comprehensive Annual Financial Report

## Year Ended June 30, 2007





## **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, 2007

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

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***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT***

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Comprehensive Annual Financial Report  
Year Ended June 30, 2007

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***SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT***

***GOVERNING BOARD***

*June 30, 2007*

*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*

*BILL CAMPBELL*  
*County of Orange Representative*

*MIGUEL A. PULIDO*  
*County of Orange*  
*Cities Representative*

*JANE CARNEY*  
*Senate Rules Committee Appointee*

*TONIA REYES URANGA*  
*County of Los Angeles*  
*Cities Representative*  
*Eastern Region*

*RONALD O. LOVERIDGE*  
*County of Riverside*  
*Cities Representative*

*DENNIS YATES*  
*County of San Bernardino*  
*Cities Representative*

*GARY OVITT*  
*County of San Bernardino Representative*

*VACANT*  
*Governor's Appointee*

*BARRY R. WALLERSTEIN, D.Env.*  
*Executive Officer*





# South Coast Air Quality Management District

21865 Copley Drive, Diamond Bar, CA 91765-4178  
(909) 396-2000 • <http://aqmd.gov>

October 19, 2007

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, 2007.

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, 2007 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, 2007 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.

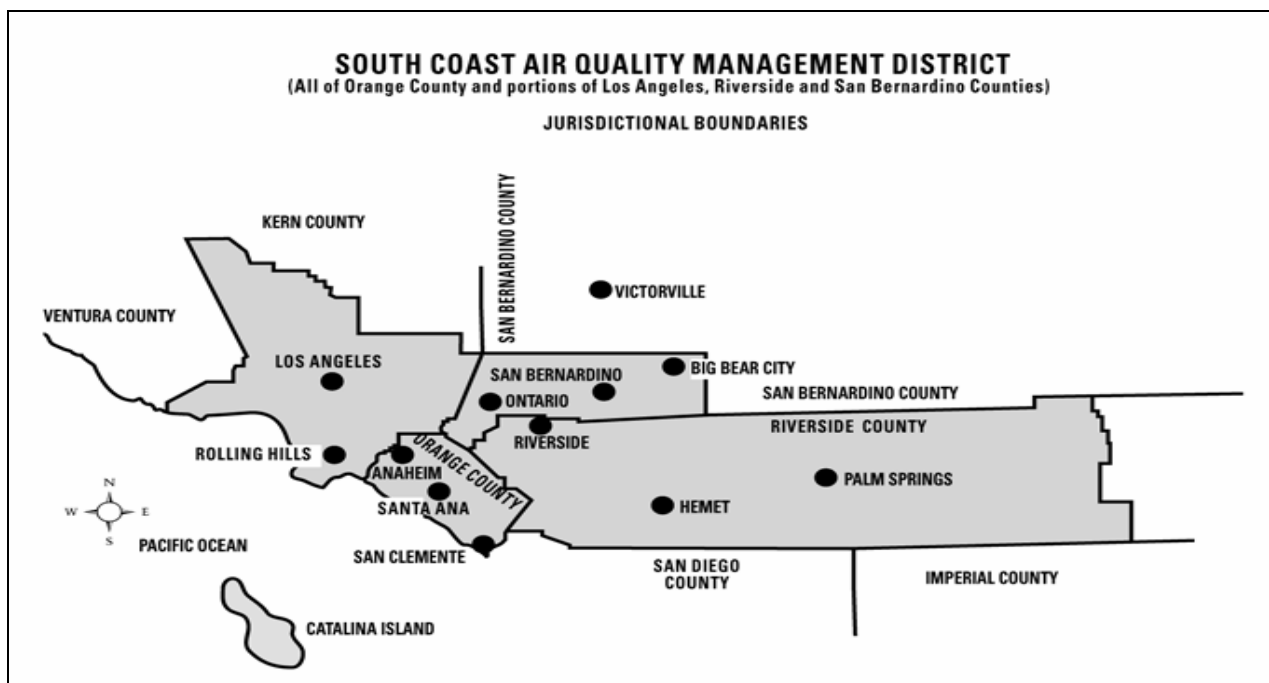
The independent audit of the financial statements of the AQMD was part of a broader, federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation 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 16 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 continues to streamline many of its operations, reducing the cost of its programs. Compared to the 1991-92 fiscal year, 2006-07 reflects staffing levels that are 30% (350 FTEs) below 1991-92 levels and expenditures, when adjusted for inflation, that are 36% 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 debt reduction. Revenues for fiscal year 2007 exceeded estimates due to several significant one-time penalty settlements totaling \$9.4 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.

Because AQMD fee rate increases have not kept up with program costs, the Governing Board adopted in June 2006 a cost recovery plan which increases permit and compliance fees by a total of 30% phased-in over three years at 10% annually. These increases, along with debt and retirement cost reductions using one-time penalty/settlements, have brought AQMD's budgeted program expenditures in balance with its revenues.

### ***Long-term Financial Planning***

Unreserved fund balance in the General Fund (28.9 % 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 the balance over the policy guidelines is due to the previously noted one-time penalty/settlements reached in fiscal year 2007 with air pollution violators which resulted in penalties of approximately \$9.7 million over revenue estimates. To address long-term program cost, the AQMD in December 2006, using one-time penalty/settlement money, took the following actions totaling \$29.1 million: (1) made a \$10 million prepayment to the San Bernardino County Employees' Retirement Association reducing AQMD's Unfunded Actuarial Accrued Liability (UAAL) and lowering its long-term retirement cost; and (2) executed a Guaranteed Investment Contract (GIC) and Escrow Agreement to economically defease a portion of its current debt service, (Pension Obligation Bonds) in the amount of \$19.1 million. As part of the agreement, \$3 million will be withdrawn annually beginning July 2007 for the next seven years, with approximately \$2 million remaining from the GIC available in the eighth year for principal and interest reduction. This defeasance provides for budget savings during the eight year period between 2007 and 2014. Beginning in 2015, AQMD's debt service on its Installment Sale Revenue Bonds (associated with its Headquarters building) will be retired, resulting in an approximate \$6 million annual savings.

## ***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, 2007 is \$338,900,038.

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 secured with assistance from a team of experienced brokers from the Public Entity Division of Alliant Insurance Services. AQMD maintains All Risk Property coverage with replacement cost valuation for insurable values of approximately \$150 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 ACME Administrators, a state-certified third-party claims administrator (TPA), to process the AQMD's workers' compensation claims, with a dedicated claims examiner. Tort liability, 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 post-employment health care benefits to its SBCERA retirees. In June 2004, the AQMD issued \$47 million in taxable pension obligation bonds to retire the Unfunded Actuarial Accrued Liability (UAAL) due to SBCERA realizing a 5.61% reduction in its FY 2004-05 retirement rates. As noted earlier, in December 2006 the AQMD prepaid a portion (\$10 million) of its new UAAL reducing its current retirement contributions by 1.12% of annual payroll.

### *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; implement the 2007 AQMP; MATES III; expand its Environmental Justice programs; and pursue its legislative goals.

During the past 12 months, AQMD actively pursued the following programs.

#### Goods Movement & Air Quality Issues

AQMD sponsored two special meetings to hear the public's concerns about air pollution at the Ports of Long Beach and Los Angeles on November 2<sup>nd</sup> and 3<sup>rd</sup> of 2006. The meetings took place as the ports considered adopting and implementing the San Pedro Bay Ports Clean Air Action Plan. The aggregated smog-forming and toxic diesel emissions from the ships, trains, trucks and equipment at the Ports of Long Beach and Los Angeles represent the largest single fixed source of air pollution in the Los Angeles Basin. Collectively, sources at the port are responsible for more than 100 tons per day of smog- and particulate-forming nitrogen oxides – more than the daily emissions from all 6 million-plus cars in the region. Ships alone are responsible for 50 tons per day of smog-forming nitrogen oxides, and their emissions are expected to nearly triple by 2020 due to increasing trade traffic.

Sources operating in the ports area also contribute nearly one-quarter of all diesel particulate matter emissions in the region. Diesel emissions are responsible for about 70 percent of the total cancer risk from air pollution. According to the California Air Resources Board, statewide air pollution from goods movement, including the ports, is responsible for an estimated 2,500 premature deaths each year.

In November 2006 the Board adopted a resolution committing a total of \$36 million over five years – \$7.2 million per year – for a truck fleet modernization program designed to help clean up heavy-duty diesel trucks servicing the ports area. In addition, AQMD earlier this year approved \$6 million for the truck fleet modernization program as well as \$6 million for a liquefied natural gas (LNG) port truck program. AQMD is working with the Ports of Long Beach and Los Angeles to implement the LNG truck project.

### Air Quality Management Plan

The AQMD has released its road map for achieving new and more stringent federal clean air standards including dozens of aggressive pollution control measures on sources from consumer products to ocean-going ships. The draft 2007 Air Quality Management Plan (AQMP) lays out a detailed strategy for meeting the federal fine particulate PM2.5 standard by 2015 and the federal 8-hour ozone standard by 2021.

AQMD's AQMP uses complex computer models to predict the amount of emissions reductions needed to achieve federal standards, factoring in existing pollution control programs and projected growth. The plan shows that emissions of smog-forming nitrogen oxides and volatile organic compounds will have to be cut beyond the requirements in existing programs by an additional 50 percent by 2020 to meet the 8-hour ozone standard.

Since most air pollution is generated by so-called mobile sources – including everything from cars and trucks to ships, trains and planes – much of the plan focuses on proposed measures to reduce mobile source emissions through tougher emission standards for both new and existing vehicles; dramatically accelerated turnover of existing fleets and incentive programs to help fund the replacement of aging, dirty diesel equipment. In addition to mobile source controls, significant reformulation of consumer products and continued emission reductions from businesses and industry will be needed to reach clean air goals.

Although AQMD has the overall responsibility for drafting the plan, the California Air Resources Board and the U.S. Environmental Protection Agency have most of the authority over existing emissions. The Southern California Association of Governments is responsible for developing the plan's transportation control measures. In 2014, AQMD's authority will cover only 11 percent of all nitrogen oxide (NOx) emissions, 24 percent of volatile organic compounds (VOCs) and 24 percent of sulfur oxides (SOx).

### Technology Advancement

In October 2006 AQMD unveiled a groundbreaking near-zero-emission fuel cell and low-emission micro turbine project that is reducing emissions and energy costs at TST Inc.'s aluminum foundry in Fontana.

This is the first use of a fuel cell at a large industrial manufacturing facility in Southern California and illustrates to Southern California industrial companies that there are practical, near-zero emission alternatives to burning fossil fuels for generating electricity on-site.

Fuel cells convert hydrogen-based fuels including natural gas into electricity without combustion or moving parts. The primary by-products of fuel cells are water and heat, meaning they are clean and efficient without burning fossil fuels. First developed to power spacecraft, fuel cells now are being demonstrated in a wide range of applications from passenger cars, trucks and buses to commercial buildings and homes.

The fuel cell and micro turbine combination at TST Inc. will reduce the amount of utility-supplied power used by the facility by about 60 percent, which saves money and lowers demand on the power grid. Micro turbines at the facility will function as an additional source of electricity.

In February 2007 the Board took another step toward the goal of establishing a diesel-free school bus fleet in the region by awarding \$3.9 million to help several school districts install natural gas fueling stations and purchase natural gas-powered buses.

In addition to reducing smog-forming and toxic emissions, compressed natural gas (CNG) powered buses can save fuel costs for school districts. At current prices, the cost of CNG is half of the price of an equivalent amount of diesel fuel.

Since 2000, AQMD's Board has been a national leader in adopting policies and providing incentives to replace dirty diesel school buses with alternative fuel models. To date, AQMD has approved \$87 million to purchase 505 new school buses – including 419 CNG and 86 lower-emission diesel models – as well as CNG fueling infrastructure and 2,553 particulate traps to reduce emissions from diesel buses.

CNG school buses on average emit four times less smog-forming nitrogen oxides and 10 times less particulate matter than the diesel buses they replace. In addition, CNG buses emit no diesel soot, which is the source of about 70 percent of all air pollution cancer risk in the region.

### Mobile Sources

To speed up progress in achieving healthful air quality for the Southland's 16.5 million residents, in January 2007 South Coast Air Quality Management District Chairman William Burke announced the 2007 Mobile Source Fair Share Initiative to secure greater local authority to regulate mobile sources of air pollution.

Mobile sources, including everything from cars, trucks and SUVs to planes, trains and ships, are responsible for more than 80 percent of the Southland's smog-forming emissions.

Major elements of the initiative include:

- Seeking a requirement that the California Air Resources Board (CARB) and the US Environmental Protection Agency be legally obligated to adopt all feasible mobile source emission control measures within their authority to meet air quality standards;
- Seeking clarification under the federal Clean Air Act that AQMD may adopt its own rules to reduce mobile source emissions;
- Assisting the CARB in developing new mobile source rules. AQMD staff will prepare complete proposed rule packages for CARB's consideration; and



- Creating a new Mobile Sources division at AQMD to participate more actively in state and federal mobile source rulemaking, and to oversee development of new AQMD mobile source rules.

Reducing mobile source emissions is an urgent priority for two reasons: first, a growing body of scientific evidence demonstrates that health effects of air pollution are worse than previously suspected; and second, the Southland is required by federal law to meet the federal standard for PM2.5 in less than eight years. Attaining the PM2.5 standard will require cutting nitrogen oxide emissions by an additional 40 percent, above and beyond current control programs.

### *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, 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The Comprehensive Annual Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

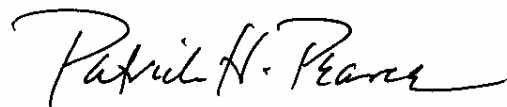
The preparation of our comprehensive annual financial report was made possible by the dedicated services of the accounting, financial analyst and management staff of the Finance Office. These members have our sincere appreciation for the contribution made in the preparation of this report.

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

Respectfully submitted,



Barry R. Wallerstein, D.Env.  
*Executive Officer*



Patrick H. Pearce, CGFM  
*Chief Financial Officer*

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

South Coast Air Quality  
Management District (AQMD)  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

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



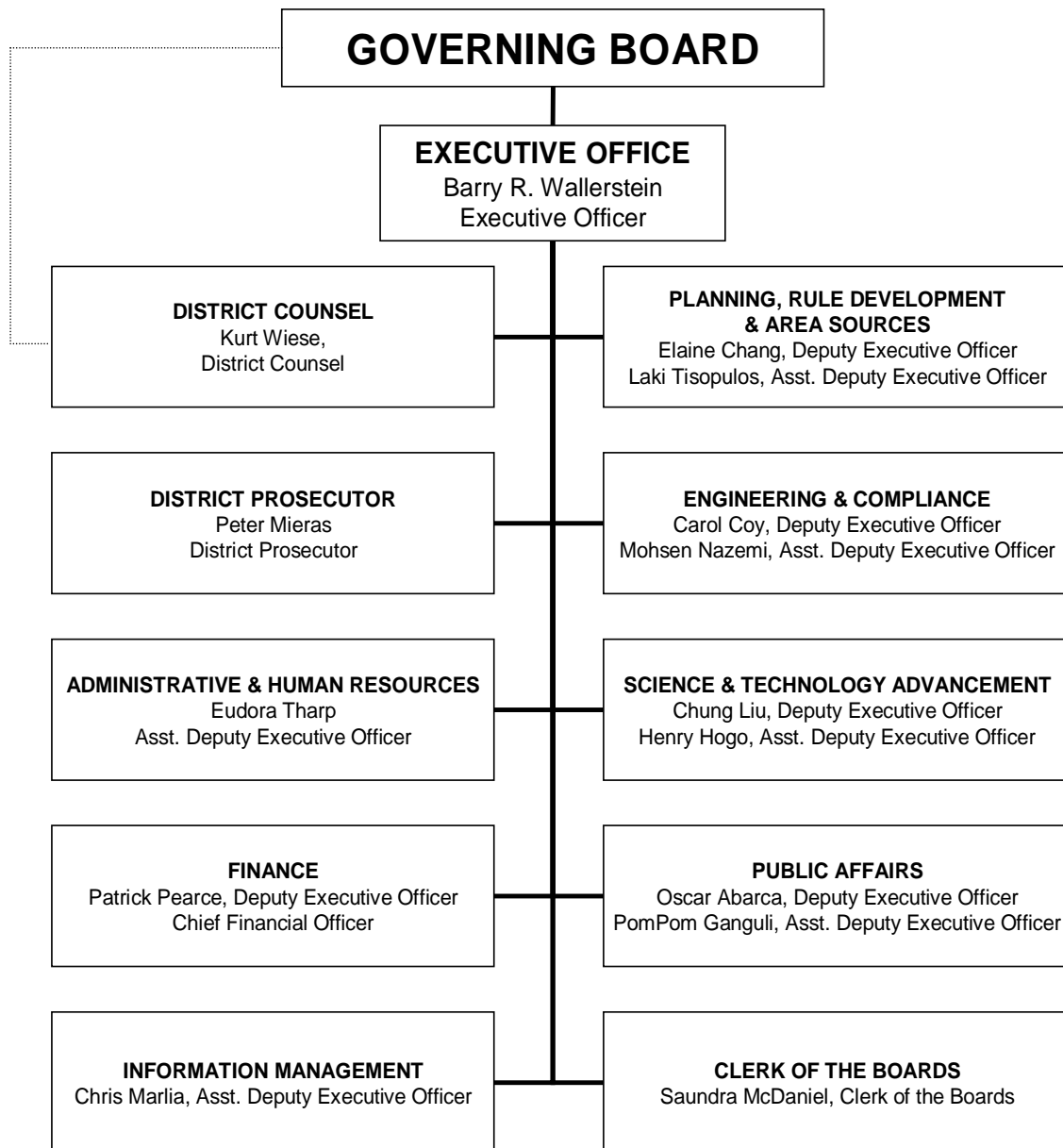
President

Executive Director

# South Coast Air Quality Management District, California

## Organizational Chart

June 30, 2007



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

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FAX: 310-792-7004

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FAX: 202-737-2684

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14<sup>TH</sup> FLOOR  
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203-249-7246  
FAX: 203-275-6504

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, 2007, 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, 2007, 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 October 19, 2007 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) 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  
October 19, 2007

*Thompson, Cobb, Bazilio & Associates, PC*

# **SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2007**

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, 2007. 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 \$302.3 million (net assets). Of this amount, \$8.5 million (unrestricted net assets), may be used to finance the AQMD's day-to-day operations.
- The AQMD's total net assets increased by \$15.6 million primarily due to receipt of FY 2005-06 state grants for Carl Moyer SB 1107 program in FY 2006-07.
- As of the close of the fiscal year, the AQMD's governmental funds reported combined ending fund balances of \$324.9 million, an increase of \$9.7 million in comparison to the prior year.
- Of the \$324.9 million combined ending fund balances, \$44.2 million represents the fund balance of the General Fund.
- Out of the total General Fund balance of \$44.2 million at the end of the fiscal year, \$37.3 million represents the unreserved fund balance of which \$20.7 million represents designated uses. The undesignated balance was \$16.6 million, or 14% of general fund expenditures.
- The AQMD's long term debt decreased by \$7.2 million or 6.1% of the long term debt outstanding.
- The AQMD made a \$10 million prepayment on its Unfunded Actuarial Accrued Liability (UAAL) to San Bernardino County Employees' Retirement Association and executed a Guaranteed Investment Contract (GIC) and Escrow Agreement for \$19.1 million to defease a portion of its current debt service on Pension Obligation Bonds from one-time penalty/settlement money.

### **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.

### **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 under the Fund Financial Statements section. The reconciliation of the total change in fund balances for all governmental funds to the change in net assets can also be found under that same section.

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 under the Fund Financial Statements section 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 under the Fund Financial Statements section.

### **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, Retirement Benefit Trust Fund and Guaranteed Investment Contract Trust Fund are presented under the Fund Financial Statements section.

### 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.

### 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.

Individual fund data for each of the non-major governmental funds is included in the Other Supplementary Information section.

## C. Government-wide Financial Analysis

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

The schedule below presents a condensed Statement of Net Assets as of June 30, 2007 compared with the prior fiscal year.

	Net Assets (In Thousands)					
	Governmental Activities		Business-Type Activities		TOTAL	
	<u>FY 2006-07</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2005-06</u>
Current and other assets	\$ 364,631	\$ 355,112	\$ 126	\$ 82	\$ 364,757	\$ 355,194
Prepaid pension assets	46,736	46,756	-	-	46,736	46,756
Capital assets	50,569	51,908	226	313	50,795	52,221
Total assets	<u>461,936</u>	<u>453,776</u>	<u>352</u>	<u>395</u>	<u>462,288</u>	<u>454,171</u>
Long-term liabilities outstanding	118,201	125,381	-	-	118,201	125,381
Other liabilities	41,723	42,059	48	9	41,771	42,068
Total liabilities	<u>159,924</u>	<u>167,440</u>	<u>48</u>	<u>9</u>	<u>159,972</u>	<u>167,449</u>
Net Assets:						
Invested in capital assets, net of related debt	10,939	7,712	226	313	11,165	8,025
Restricted for:						
Pension assets	1,926	736	-	-	1,926	736
Special projects/programs	280,755	253,868	-	-	280,755	253,868
Unrestricted	8,392	24,020	78	73	8,470	24,093
Total net assets	<u>\$ 302,012</u>	<u>\$ 286,336</u>	<u>\$ 304</u>	<u>\$ 386</u>	<u>\$ 302,316</u>	<u>\$ 286,722</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 \$302.3 million.

The largest portion of the AQMD's net assets (93%) 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 4% 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 (3%) 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 \$15.6 million during the current fiscal year. Most of the increase represents receipt of state grants from Carl Moyer SB 1107 program in FY 2006-07.

Program revenue increased by \$9 million, largely due to annual operating fees and a further refinement of non-specific Mobile Source revenue that supports Clean Air Act Activities. General revenue decreased by \$1.9 million, which can be attributed to the decrease in Penalties & Settlements, offset by increases in Interest and Other Revenues.

A condensed Changes in Net Assets schedule for the fiscal year ending June 30, 2007 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 2006-07</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2005-06</u>
Revenues:						
Program Revenues:						
Fees and charges – stationary sources	\$ 75,200	\$ 68,792	\$ -	\$ -	\$ 75,200	\$ 68,792
Fees and charges – mobile sources	23,966	20,992	-	-	23,966	20,992
Operating grants and subventions	8,947	8,035	-	-	8,947	8,035
Restricted special revenue sources	92,925	94,223	-	-	92,925	94,223
CNG fuel sales	-	-	143	123	143	123
General Revenues:						
Grants and subventions – not restricted to specific programs	2,962	2,963	-	-	2,962	2,963
Penalties and settlements	13,211	16,074	-	-	13,211	16,074
Interest	3,571	2,887	-	-	3,571	2,887
Other revenues	1,237	930	-	-	1,237	930
Total revenues	<u>222,019</u>	<u>214,896</u>	<u>143</u>	<u>123</u>	<u>222,162</u>	<u>215,019</u>
∞ Expenses:						
Advance clean air technology	7,068	5,809	-	-	7,068	5,809
Ensure compliance with clean air rules	42,699	36,727	-	-	42,699	36,727
Customer service	8,688	11,593	-	-	8,688	11,593
Develop programs to achieve clean air	8,722	7,812	-	-	8,722	7,812
Develop rules to achieve clean air	7,351	8,046	-	-	7,351	8,046
Monitoring air quality	12,229	11,794	-	-	12,229	11,794
Permit review	24,509	23,192	-	-	24,509	23,192
Policy support	3,442	2,948	-	-	3,442	2,948
Special funds activities	62,831	64,309	-	-	62,831	64,309
Other expenses	-	-	225	202	225	202
Total expenses	<u>177,539</u>	<u>172,230</u>	<u>225</u>	<u>202</u>	<u>177,764</u>	<u>172,432</u>
Increase (decrease) in net assets, before transfers	<u>44,480</u>	<u>42,666</u>	<u>(82)</u>	<u>(79)</u>	<u>44,398</u>	<u>42,587</u>
Transfers	<u>(28,804)</u>	<u>17</u>	<u>-</u>	<u>(17)</u>	<u>(28,804)</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ 15,676</u>	<u>\$ 42,683</u>	<u>\$ (82)</u>	<u>\$ (96)</u>	<u>\$ 15,594</u>	<u>\$ 42,587</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 2006-07. 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 a decrease in program revenues in the Restricted Special Revenues Sources. The program revenues in the Restricted Special Revenue Sources category are made up of revenues from several special revenue funds. Following are explanations of the significant revenue variances from Fiscal Year 2005-06 to Fiscal Year 2006-07:

- **Air Quality Improvement Fund** in Fiscal Year 2006-07 revenue in this account decreased by \$16 million due to a change in the reporting of the pass-through revenue received. This fund is used to account for 30 percent of the vehicle registration fees received by the SCAQMD under the provisions of Sections 44243 and 44244 of the California Health and Safety Code. The revenue received is disbursed to the local governments in the south coast basin to be used to fund projects for the purpose of reducing air pollution from motor vehicles.
- **Mobile Source Air Pollution Reduction Fund** in Fiscal Year 2006-07 revenue increased by \$0.98 million as result of an increase in interest earnings which can be mainly attributed to higher cash balances in the fund. This fund is used to account for 30 percent of the vehicle registration fees received by the SCAQMD under the provisions of Sections 44243 and 44244 of the California Health and Safety Code. The revenue received is to be used to provide grants to fund projects for the purpose of reducing air pollution from motor vehicles in the south coast basin. In addition, interest earnings increased due to higher cash balances in the fund along with an approximate average increase of 1.3% in the rate of return from prior fiscal year to FY 2006-07.
- **Air Quality Investment Fund** in Fiscal Year 2006-07 revenue increased by \$4.8 million as result of an increase in Rule 1121 Mitigation Fee revenue. Rule 1121 requires the manufacturers of water heaters to reduce NOx emissions. Manufacturers that could not meet the requirement by January 2005 were required to pay a mitigation fee of \$3 per unit sold within the South Coast District. In January 2006 the fee increased to \$15. As of January 2008, all manufacturers will be required to sell water heaters that meet the Rule 1121 NOx requirements. In addition, interest earnings increased due to higher cash balances in the fund along with an approximate 0.5% increase in the rate of return.

- **Carl Moyer Fund** was established to account for the money received from the California Air Resources Board (CARB) to provide funds, on an incentive basis, for the incremental cost of cleaner-than-required engines and equipment. Revenue in this fund increased by \$24.0 million which was due to receiving the SB 1107 State Grant revenue for Moyer funding years 7 (FY 04-05) and 8 (FY 05-06). In addition, interest earnings increased due to higher cash balances in the fund along with an approximate average increase of 1.3% in the rate of return from prior fiscal year to FY 2006-07.
- **Rule 1309.1 Priority Reserve Fund** in Fiscal Year 2006-07 revenue decreased by \$13 million and can be attributed to one large fee of \$13.3 million that was received in Fiscal Year 2005-06 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 Fiscal Year 2006-07, there were no mitigation fees paid.
- **BP ARCO Fund** in Fiscal Year 2006-07 interest revenue increased by \$0.3 million due to higher cash balances in the first six months of the fiscal year, along with an approximate average increase of 1.3% in the rate of return from prior fiscal year to FY 2006-07.

#### **Business-type Activities**

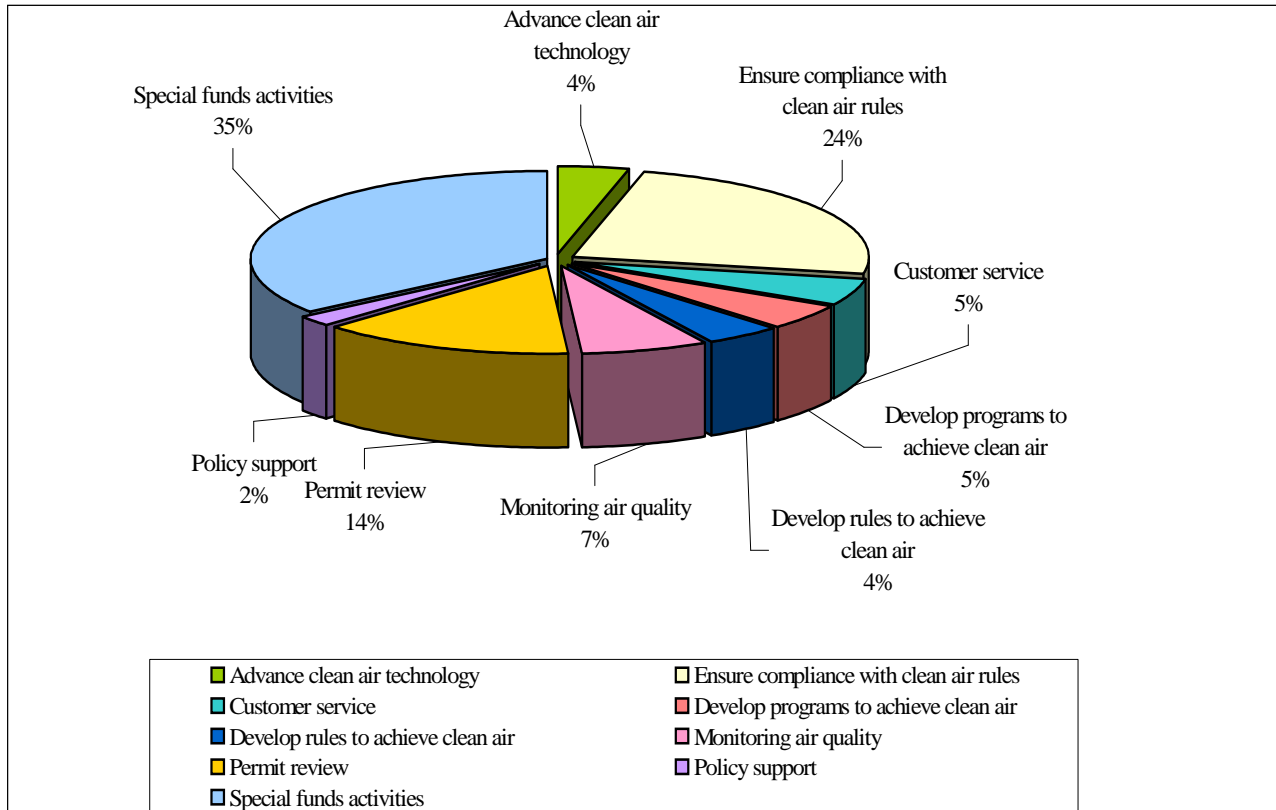
The Business-type Activities section reports transactions relating to the CNG fueling station. The CNG fueling station expenditures are reported on a cash basis and are offset by sales. The net assets of the business-type activities decreased by \$82,000 from \$386,000 to \$304,000. The decrease is primarily due to the depreciation of the Business-type Activities capital assets and the increase in liabilities.

# SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

## EXPENSES BY ACTIVITY

### Governmental Activities

**FY 2006-07**



Activity	FY 06-07	FY 05-06	FY 04-05	FY 03-04	FY 02-03	FY 01-02
Advance clean air technology	\$ 7,067,528	\$ 5,808,530	\$ 5,011,874	\$ 7,255,854	\$ 5,933,504	\$ 4,509,988
Ensure compliance with clean air rules	42,699,519	36,727,226	37,666,189	38,536,722	33,440,503	33,020,627
Customer service	8,687,842	11,592,984	10,532,066	10,965,904	10,035,584	9,557,298
Develop programs to achieve clean air	8,721,816	7,811,791	7,106,133	7,910,778	6,213,755	5,654,636
Develop rules to achieve clean air	7,350,795	8,046,177	8,130,305	7,915,483	6,563,362	6,618,208
Monitoring air quality	12,229,451	11,794,227	11,591,430	11,883,527	10,032,083	9,889,813
Permit review	24,508,757	23,191,423	21,403,924	21,408,261	18,937,964	20,714,836
Policy support	3,442,207	2,948,274	2,954,538	2,523,809	2,559,042	2,238,319
Special funds activities	62,831,313	64,308,902	59,525,817	62,422,513	94,144,240	85,826,567
<b>Total</b>	<b>\$ 177,539,228</b>	<b>\$172,229,534</b>	<b>\$ 163,922,276</b>	<b>\$ 170,822,851</b>	<b>\$ 187,860,037</b>	<b>\$ 178,030,292</b>

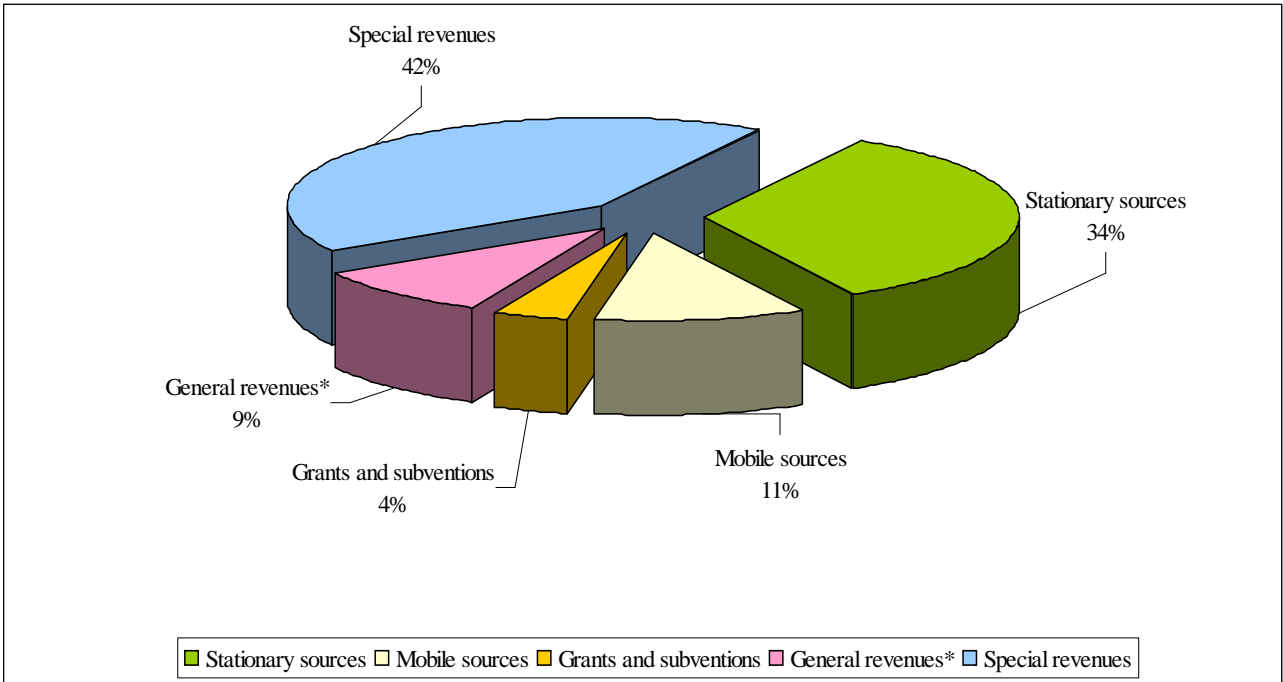


# SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

## REVENUES BY MAJOR SOURCE

### Governmental Activities

**FY 2006-07**



Source	FY 06-07	FY 05-06	FY 04-05	FY 03-04	FY 02-03	FY 01-02
Stationary sources	\$ 75,200,253	\$ 68,792,294	\$ 64,925,373	\$ 61,932,425	\$ 62,835,710	\$ 65,737,827
Mobile sources	23,966,240	20,991,833	14,716,865	10,787,342	10,245,290	10,272,434
Grants and subventions	8,946,833	8,035,387	8,100,573	9,679,283	7,434,924	10,434,312
General revenues*	20,980,257	22,853,273	25,178,600	23,479,027	16,732,092	16,429,959
Special revenues	92,925,386	94,223,386	87,747,227	60,731,099	81,194,075	118,891,866
<b>Total</b>	#####	#####	#####	#####	#####	#####

\* 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)**

**FY 2006-07**

	<u>Total Cost of Program Activities</u>	<u>Net Cost of Program Activities</u>
Advance clean air technology	\$ 7,068	\$ 519
Ensure compliance with clean air rule	42,699	315
Customer service	8,688	53
Develop programs to achieve clean air	8,722	41
Develop rules to achieve clean air	7,351	51
Monitoring air quality	12,229	10
Permit review	24,509	(7,607)
Policy support	3,442	23
Special funds activities	62,831	30,094
Total	\$ 177,539	\$ 23,499

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 \$324.9 million, an increase of \$9.7 million in comparison with the prior year. Approximately 86% of these fund balances (\$280.8 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 \$44.2 million. The unreserved fund balance was \$37.3 million; designations were \$20.7 million or 47%. 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. 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 31% of total General Fund expenditures, while total fund balance represents 37% 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, in FY 2006-07 permit processing fees, annual operating and emission fees were increased by 10%. In addition, all other stationary source fees were increased by 3.65%. Overall, the FY 2006-07 adopted budget represented a \$14.0 million (13.3%) increase over the FY 2005-06 adopted budget. The FY 2006-07 adopted budget included a 4% salary savings; which represents 33 unfilled positions; and an increase of approximately \$1.3 million in services, supplies and equipment budget. The adopted budget relied on \$2,014,607 from Undesignated Fund Balance to balance the budget. On a budgetary basis, actual FY 2006-07 General Fund revenues exceeded expenditures by \$6.1 million.

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

- **Air Quality Improvement Fund** – The fund balance showed a slight decrease due to the expenses associated with the State mandated biennial audit of all local governments that receive AB 2766 fee revenues.
- **Air Quality Investment Fund** – The fund balance increased due to an increase in Rule 1121 Mitigation Fee Revenue. Rule 1121 requires manufacturers of water heaters to reduce NOx emissions. Manufacturers that could not meet the requirement by January 2005 were required to pay a mitigation fee of \$3 per unit sold within the South Coast District. In January 2006 the mitigation fee increased to \$15 per unit sold.
- **Mobile Sources Air Pollution Reduction Fund** – The fund balance increased compared with the prior year due to an increase in revenue. Revenue 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 increased compared with the prior year due to revenues exceeding expenditures in Fiscal Year 2006-07. 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 Fiscal Year 2006-07. The revenue increase can be attributed to SB 1107 state grant which was received at the end of the Fiscal Year to offset a portion of the costs of projects that were recently approved by the SCAQMD Governing Board. The projects are to be completed within two years and expenditures can vary significantly from year to year.
- **Rule 1309.1 Priority Reserve Fund** – The fund balance showed an increase compared with the prior year due to revenues exceeding expenditures in Fiscal Year 2006-07. 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.
- **BP ARCO Fund** – The fund balance showed a decrease compared with the prior year. This is due to expenditures and transfers out to other funds, exceeding revenues in Fiscal

Year 2006-07. This fund was established in Fiscal Year 2004-05 with a one-time settlement of \$25 million which is to be used for projects within the South Coast District.

### **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 Fiscal Year 2006-07 adopted budget compared to the amended budget reflects an increase in appropriations of \$16.3 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 2006-07 from the following agencies:

EPA - \$2,379,000 for the following programs: Photochemical Assessment Monitoring Stations (PAMS), PM 2.5 Monitoring, Exhaust After-treatment Systems for Locomotives, Special Particulate Air Monitoring Program, and the National Air Toxics Monitoring Program.

Department of Defense - \$998,000 to demonstrate feasibility to measure low-level pollutant concentrations.

Department of Homeland Security - \$959,000 for an enhanced particulate monitoring program.

Cal-Trans - \$388,000 for exhaust after-treatment systems for locomotives.

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

Clean Fuels Fund – \$700,000 was allocated for various Clean Fuels Program activities such as the Multiple Air Toxics Exposure Study (MATES III), technical assistance, expert consultations, public outreach, technical conference sponsorship, and advance technology vehicle leases.

BP ARCO Fund – \$ 2,900,000 was allocated for following: Air monitoring in the port area and I-710 freeway corridor, outreach for the 2007 Air Quality Management Plan (AQMP), and legal defense of railroad rules.

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 2007, which exchanged gas-powered lawn mowers with electric mowers.

Rule 1309.1 Priority Reserve Fund – \$147,000 for exhaust after-treatment systems for locomotives.

Rule 1173 Mitigation Fee Fund – \$36,000 for refinery fence line monitoring.

Designation for Litigation and Enforcement – \$3,000,000 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 – \$1,340,000 for refurbishment projects at the AQMD Diamond Bar Headquarters.

Designation for Permit Streamlining – \$865,000 to improve the efficiency of the permit processing system.

The remaining \$2,379,000 increase can be attributed to transfers from the Undesignated Fund Balance for the following : the new Mobile Source Division, to organize and conduct the 2007 International Asthma Conference, locomotive remote sensing devices to measure locomotive emissions, critical Carl Moyer program needs, to enhance chrome plating enforcement, review of emission inventories and health risk assessments submitted by rail yards per Rule 3503, and air monitoring in the port area and I-710 freeway corridor.

For Fiscal Year 2006-07, actual revenues exceeded the final budget by \$9,132,000 or 8% and expenditures savings were \$12,411,000 or 9%.

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 Fiscal Year 2006-07 budget was prepared which included penalty settlements from three refineries and a manufacturer in the amount of \$8.6M. In addition, for Fiscal Year 2006-07 interest earnings were budgeted at 4% while the actual rate of return averaged 5.2%, which along with higher cash balances resulted in interest earnings exceeding the Fiscal Year 2006-07 projected interest revenue.

The expenditure savings can be mainly attributed to only hiring critical vacant positions. Salary savings were budgeted at 4% while the actual was 6%. Additionally, expenditure savings were achieved by delaying budgeted contract work and building refurbishment projects to the following year, the inability to hire temporary employees with the required skills needed for specific projects along with the decision not to hire temporary employees for the port projects. The savings in the capital outlay account were due to expenditures

coming in lower than estimated with the purchases of some items deferred until Fiscal Year 2007-08. The savings in debt service can be attributed to the closure of the Construction Trust Fund, Series A Trust Fund and the Series B Trust Fund. The residual fund balances remaining in the closed Funds were transferred to the Installment Purchase Payment Trust Fund in the Building Corporation and applied to the installment payment due from the SCAQMD as a one-time credit pursuant to the trust agreement between the SCAQMD and the Building Corporation.

## **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 \$50.6 million (net of accumulated depreciation of \$54.7 million) as of June 30, 2007. This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, and AQMD fleet vehicles. Depreciation on capital assets is recognized in the Government-wide financial statements.

Additional information on the capital assets can be found in the Notes to Basic Financial Statements section.

### **Long-Term Debt**

At the end of the current fiscal year, the AQMD had a total long-term debt outstanding of \$118.2 million, including the current portion of \$9.1 million. Of this amount, \$39.6 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 \$64.2 million represents the Pension Obligation Bonds. The 1995 series (outstanding balance of \$19.3 million) and \$46 million outstanding balance 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 \$1.5 million and compensated absences of \$12.9 million.

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

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

The FY 2007-08 expenditure budget decreases by 7.9% compared to the FY 2006-07 amended budget. The budget reflects a decrease of \$9.9 million in expenditures from the FY 2006-07 amended budget and a \$6.4 million increase over the FY 2006-07 Adopted Budget. This FY 2007-08 budget request includes the full cost increase associated with its labor agreements, 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 mainly due to 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. 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 2007-08 Budget, the second year of 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 3.3% increase for all other stationary source fees. Estimated revenues for FY 2007-08 are \$125.5 million which 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 2007-08 expenditure budget is \$125.5 million and includes 835 authorized positions. Compared to FY 1991-92, this reflects 30% less staffing. Program costs, however, will exceed by \$12.6 million (approximately 11.2%) the FY 1991-92 budget. Using inflation-adjusted dollars, however, this year's budget request is 36% 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, 2007**

<u>Assets</u>	Primary Government			Component
	Governmental Activities	Business- type Activities	Total	Unit SCAQMD Building Corporation
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 316,998,852	\$ 125,850	\$ 317,124,702	\$ 661,682
Investments	20,000,000	-	20,000,000	-
Interest receivable	4,650,156	-	4,650,156	627,807
Due from other governmental agencies	19,633,621	-	19,633,621	-
Accounts receivable, net	3,288,889	-	3,288,889	-
Inventories	59,646	-	59,646	-
Other assets	-	-	-	334,297
Total current assets	364,631,164	125,850	364,757,014	1,623,786
<b>Noncurrent Assets:</b>				
Prepaid pension assets	46,736,145	-	46,736,145	-
<b>Capital assets:</b>				
Land	8,829,792	-	8,829,792	-
Depreciable building and improvements and equipment, net	41,738,595	226,006	41,964,601	-
Total capital assets	50,568,387	226,006	50,794,393	-
Total noncurrent assets	97,304,532	226,006	97,530,538	-
Total assets	461,935,696	351,856	462,287,552	1,623,786
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities	20,571,484	47,903	20,619,387	10,066
Interest payable	2,026,502	-	2,026,502	627,807
Salaries and benefits payable	3,890,881	-	3,890,881	-
Unearned revenue	15,233,961	-	15,233,961	-
Long term debt - due within one year	9,126,213	-	9,126,213	-
Total current liabilities	50,849,041	47,903	50,896,944	637,873
<b>Noncurrent Liabilities:</b>				
Long term debt - due in more than one year	109,075,056	-	109,075,056	-
Total noncurrent liabilities	109,075,056	-	109,075,056	-
Total liabilities	159,924,097	47,903	159,972,000	637,873
<b>Net Assets</b>				
Investment in capital assets, net of related debt	10,938,387	226,006	11,164,393	-
<b>Restricted for:</b>				
Pension assets	1,926,145	-	1,926,145	-
Special projects/programs	280,754,862	-	280,754,862	-
Unrestricted	8,392,205	77,947	8,470,152	985,913
Total net assets	\$ 302,011,599	\$ 303,953	\$ 302,315,552	\$ 985,913

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007**

Functions/ Programs	Expenses	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
		Fees and Charges		Operating Grants and Subventions	Restricted Special Revenues Sources *	Governmental Activities **	Business-Type Activities	Total	SCA Q M D Building Corporation
	Stationary Sources	Mobile Sources							
<b>Primary Government:</b>									
<b>Governmental Activities:</b>									
Advance clean air technology	\$ 7,067,528	\$ -	\$ 7,486,258	\$ 100,000	\$ -	\$ 518,730	\$ -	\$ 518,730	\$ -
Ensure compliance with clean air rules	42,699,519	38,424,491	1,804,986	2,784,996	-	314,954	-	314,954	-
Customer service	8,687,842	6,082,263	2,478,701	180,149	-	53,271	-	53,271	-
Develop programs to achieve clean air	8,721,816	4,672,680	3,891,631	198,431	-	40,926	-	40,926	-
Develop rules to achieve clean air	7,350,795	5,859,929	1,326,156	216,034	-	51,324	-	51,324	-
Monitoring air quality	12,229,451	1,158,504	6,160,716	4,920,376	-	10,145	-	10,145	-
Permit review	24,508,757	16,354,783	-	546,846	-	(7,607,128)	-	(7,607,128)	-
Policy support	3,442,207	2,647,604	817,792	-	-	23,189	-	23,189	-
Special funds activities	62,831,313	-	-	-	92,925,386	30,094,073	-	30,094,073	-
Total governmental activities	<u>177,539,228</u>	<u>75,200,254</u>	<u>23,966,240</u>	<u>8,946,832</u>	<u>92,925,386</u>	<u>23,499,484</u>	<u>-</u>	<u>23,499,484</u>	<u>-</u>
<b>Business-type Activities:</b>									
CNG fueling station	225,604	-	-	-	-	-	(225,604)	(225,604)	-
Total business-type activities	<u>225,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(225,604)</u>	<u>(225,604)</u>	<u>-</u>
<b>Total primary government</b>	<u>\$ 177,764,832</u>	<u>\$ 75,200,254</u>	<u>\$ 23,966,240</u>	<u>\$ 8,946,832</u>	<u>\$ 92,925,386</u>	<u>23,499,484</u>	<u>(225,604)</u>	<u>23,273,880</u>	<u>-</u>
<b>Component Unit:</b>									
SCA Q M D Building Corporation	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	-	2,423,730
<b>Total component unit</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,423,730</u>
<b>General Revenues:</b>									
Grants and subventions - not restricted to specific stationary source programs						2,962,418	-	2,962,418	-
Interest						3,570,915	-	3,570,915	9,979
Lease revenue						365,559	-	365,559	-
Penalties/ settlement						13,211,151	-	13,211,151	-
Subscriptions						22,315	-	22,315	-
Other						847,899	-	847,899	2,037,955
CNG fuel sales						-	143,433	143,433	-
<b>Total general revenues</b>						<u>20,980,257</u>	<u>143,433</u>	<u>21,123,690</u>	<u>2,047,934</u>
Change in net assets before transfers and special and extraordinary item						44,479,741	(82,171)	44,397,570	(375,796)
Net transfer in (out)						(18,803,906)	-	(18,803,906)	-
Special and extraordinary item						(10,000,000)	-	(10,000,000)	-
Change in net assets						15,675,835	(82,171)	15,593,664	(375,796)
Net assets - July 1, 2006						286,335,764	386,124	286,721,888	1,361,709
<b>Net assets - June 30, 2007</b>						<u>\$ 302,011,599</u>	<u>\$ 303,953</u>	<u>\$ 302,315,552</u>	<u>\$ 985,913</u>

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

\*\* General Revenue and excess Stationary Source Fees are used to offset a portion of the Permit Processing shortfall.

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
BALANCE SHEET – GOVERNMENTAL FUNDS  
June 30, 2007**

<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	\$ 56,307,547	\$ 1,676,196	\$ 46,022,934	\$ 28,984,030	\$ 40,488,459	\$ 73,573,689	\$ 21,393,466	\$ 16,588,456	\$ 31,964,075	\$ 316,998,852
Investments	-	-	5,000,000	-	5,000,000	5,000,000	-	5,000,000	-	20,000,000
Interest receivable	816,287	43,172	743,377	389,290	720,677	884,942	299,286	327,265	425,860	4,650,156
Due from other governmental agencies	6,922,738	3,450,740	2,588,055	-	2,346,220	4,325,868	-	-	-	19,633,621
Due from other funds	3,451,568	-	-	-	2,762	562,322	-	141,586	35,600	4,193,838
Accounts receivable, net	996,393	-	-	48,100	297,355	55,446	-	-	1,891,595	3,288,889
Inventories	59,646	-	-	-	-	-	-	-	-	59,646
Total assets	<u>\$ 68,554,179</u>	<u>\$ 5,170,108</u>	<u>\$ 54,354,366</u>	<u>\$ 29,421,420</u>	<u>\$ 48,855,473</u>	<u>\$ 84,402,267</u>	<u>\$ 21,692,752</u>	<u>\$ 22,057,307</u>	<u>\$ 34,317,130</u>	<u>\$ 368,825,002</u>
 <u>Liabilities and Fund Balances</u>										
Liabilities:										
Accounts payable and accrued liabilities	\$ 5,068,296	\$ 3,630,351	\$ 2,455,459	\$ 1,128,516	\$ 706,851	\$ 5,394,739	\$ 19,408	\$ 247	\$ 2,166,500	\$ 20,570,367
Salaries and benefits payable	3,890,881	-	-	-	-	-	-	-	-	3,890,881
Due to other funds	181,068	-	61,690	143,729	487,214	2,332,512	-	-	988,745	4,194,958
Unearned revenue	15,233,961	-	-	-	-	-	-	-	-	15,233,961
Total liabilities	<u>24,374,206</u>	<u>3,630,351</u>	<u>2,517,149</u>	<u>1,272,245</u>	<u>1,194,065</u>	<u>7,727,251</u>	<u>19,408</u>	<u>247</u>	<u>3,155,245</u>	<u>43,890,167</u>
Fund Balances:										
Reserved for encumbrances	6,832,427	-	21,580,300	5,747,307	17,379,002	65,134,352	1,189,238	1,487,404	17,294,502	136,644,532
Reserved for inventories	59,646	-	-	-	-	-	-	-	-	59,646
Unreserved:										
General fund	37,287,900	-	-	-	-	-	-	-	-	37,287,900
Special revenue funds	-	1,539,757	30,256,917	22,401,868	30,282,406	11,540,664	20,484,106	20,569,656	13,867,383	150,942,757
Total fund balances	<u>44,179,973</u>	<u>1,539,757</u>	<u>51,837,217</u>	<u>28,149,175</u>	<u>47,661,408</u>	<u>76,675,016</u>	<u>21,673,344</u>	<u>22,057,060</u>	<u>31,161,885</u>	<u>324,934,835</u>
Total liabilities and fund balances	<u>\$ 68,554,179</u>	<u>\$ 5,170,108</u>	<u>\$ 54,354,366</u>	<u>\$ 29,421,420</u>	<u>\$ 48,855,473</u>	<u>\$ 84,402,267</u>	<u>\$ 21,692,752</u>	<u>\$ 22,057,307</u>	<u>\$ 34,317,130</u>	<u>\$ 368,825,002</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
June 30, 2007**

Total fund balances – total governmental funds	\$324,934,835
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.	46,736,145
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.	50,568,387
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.	(2,026,502)
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	(103,781,896)
General and auto liability	(36,932)
Workers' compensation	(1,442,748)
Compensated absences	<u>(12,939,692)</u>
Net assets of governmental activities	<u>\$302,011,599</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, 2007**

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	\$ 21,771,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Annual renewal fees	34,610,682	-	-	-	-	-	-	-	-	34,610,682
Permit processing fees	16,120,262	-	-	-	-	-	-	-	-	16,120,262
Clean fuels/mobile/stationary sources	22,820,434	-	14,818,526	-	7,664,458	22,278,648	-	-	-	67,582,066
Air Toxics "Hot Spots"	1,700,118	-	-	8,785	-	-	-	-	188,492	1,897,395
Transportation programs	1,145,806	-	-	-	-	-	-	-	-	1,145,806
State subvention	4,021,970	-	-	-	-	-	-	-	-	4,021,970
Federal grant	7,887,278	-	-	-	-	12,443	-	-	167,961	8,067,682
State grant	-	-	-	-	50,000	23,295,534	-	-	1,995,000	25,340,534
Interest	3,570,915	-	2,427,784	1,394,323	2,400,716	3,252,821	1,106,950	1,292,290	1,598,250	17,044,049
Lease revenue	365,559	-	-	-	-	-	-	-	-	365,559
Source test/analysis fees	528,653	-	-	-	-	-	-	-	-	528,653
Hearing Board fees	469,041	-	-	-	-	-	-	-	-	469,041
Penalties/settlements	13,211,151	-	-	-	-	70,000	-	-	-	13,281,151
Subscriptions	22,315	-	-	-	-	-	-	-	-	22,315
RECLAIM & executive order mitigation	-	-	-	4,919,852	-	-	-	-	-	4,919,852
Other revenues	847,899	-	-	2,755,410	(204,863)	562,322	-	-	869,684	4,830,452
<b>Total revenues</b>	<b>129,093,580</b>	<b>-</b>	<b>17,246,310</b>	<b>9,078,370</b>	<b>9,910,311</b>	<b>49,471,768</b>	<b>1,106,950</b>	<b>1,292,290</b>	<b>4,819,387</b>	<b>222,018,966</b>
<b>Expenditures:</b>										
<b>Current:</b>										
Salaries and employee benefits	83,488,915	-	-	-	-	-	-	-	-	83,488,915
Insurance	1,265,932	-	-	-	-	-	-	-	-	1,265,932
Rent	472,023	-	-	-	-	-	-	-	-	472,023
Supplies	2,890,495	-	-	-	-	-	-	-	-	2,890,495
Contract and special services	13,326,404	80,848	10,931,686	5,814,541	6,552,284	32,657,763	332,956	2,064,544	3,626,403	75,387,429
Maintenance	1,101,589	-	-	-	-	-	-	-	-	1,101,589
Travel and auto	606,658	-	-	-	-	-	-	-	-	606,658
Utilities	1,685,742	-	-	-	-	-	-	-	-	1,685,742
Communications	489,779	-	-	-	-	-	-	-	-	489,779
Uncollectible accounts	4,903	-	-	-	-	-	-	-	-	4,903
Other expenditures	714,934	-	640,785	-	123,344	-	-	2,309	3,850	1,485,222
Capital outlay	2,749,059	-	-	-	-	-	-	-	-	2,749,059
Debt service:										
Principal	7,870,000	-	-	-	-	-	-	-	-	7,870,000
Interest	3,967,067	-	-	-	-	-	-	-	-	3,967,067
<b>Total expenditures</b>	<b>120,633,500</b>	<b>80,848</b>	<b>11,572,471</b>	<b>5,814,541</b>	<b>6,675,628</b>	<b>32,657,763</b>	<b>332,956</b>	<b>2,066,853</b>	<b>3,630,253</b>	<b>183,464,813</b>
Excess (deficiency) of revenues over (under) expenditures before transfers	8,460,080	(80,848)	5,673,839	3,263,829	3,234,683	16,814,005	773,994	(774,563)	1,189,134	38,554,153
<b>Other Financing Sources (uses):</b>										
Transfers in	3,607,758	-	-	-	40,000	170,000	-	-	570,000	4,387,758
Transfers out	(19,205,000)	-	-	(116,000)	(235,000)	-	(146,591)	(3,198,414)	(290,659)	(23,191,664)
Special and extraordinary item	(10,000,000)	-	-	-	-	-	-	-	-	(10,000,000)
<b>Total other financing sources (uses)</b>	<b>(25,597,242)</b>	<b>-</b>	<b>-</b>	<b>(116,000)</b>	<b>(195,000)</b>	<b>170,000</b>	<b>(146,591)</b>	<b>(3,198,414)</b>	<b>279,341</b>	<b>(28,803,906)</b>
Net change in fund balance	(17,137,162)	(80,848)	5,673,839	3,147,829	3,039,683	16,984,005	627,403	(3,972,977)	1,468,475	9,750,247
Fund balances, July 1, 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
Fund balances, June 30, 2007	\$ 44,179,973	\$ 1,539,757	\$ 51,837,217	\$ 28,149,175	\$ 47,661,408	\$ 76,675,016	\$ 21,673,344	\$ 22,057,060	\$ 31,161,885	\$ 324,934,835

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, 2007**

Net change in fund balances before transfers and special and extraordinary item – total governmental funds	\$38,554,153
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.	2,749,059
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.	(4,088,087)
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.	(20,049)
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.	7,870,000
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. The following amount represents the change in accrued interest from the prior year.	104,497
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	(638,723)
General and auto liability/workers' compensation claims	<u>(51,109)</u>
Change in net assets before transfers and special and extraordinary item of governmental activities	<u>\$44,479,741</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2007**

		Business-type Activities - Enterprise Funds
<u>Assets</u>		<u>CNG Fueling Station Fund</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$	125,850
Inventories		-
Total current assets		<u>125,850</u>
<b>Noncurrent Assets:</b>		
Capital assets, net of accumulated depreciation		<u>226,006</u>
Total noncurrent assets		<u>226,006</u>
Total assets		<u>351,856</u>
 <b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities		<u>47,903</u>
Total liabilities		<u>47,903</u>
 <b>Net Assets</b>		
Invested in capital assets, net of related debt		226,006
Unrestricted		77,947
Total net assets	\$	<u><u>303,953</u></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, 2007**

	Business-type Activities - Enterprise Funds
	CNG Fueling Station Fund
Revenue:	
Merchandise sales	\$ 143,433
Total operating revenue	143,433
Expenses:	
Depreciation	87,171
Other expenses	138,433
Total operating expenses	225,604
Operating income (loss)	(82,171)
Total net assets, July 1, 2006	386,124
Total net assets, June 30, 2007	\$ 303,953

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, 2007**

		Business-type Activities - Enterprise Funds <u>CNG Fueling Station Fund</u>
<u>Cash Flows from Operating Activities:</u>		
Cash received from merchandise sales	\$	144,315
Cash payment for goods and services		<u>(99,930)</u>
Net cash provided by operating activities		<u>44,385</u>
Other financing sources-transfer out		<u>-</u>
Net cash provided by operating activities and other financing source		<u>44,385</u>
Beginning cash balance, July 1, 2006		<u>81,465</u>
Ending cash balance, June 30, 2007	\$	<u><u>125,850</u></u>

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

Operating income	\$	<u>(82,171)</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation		87,171
Decrease (increase) in accounts receivable		-
Decrease (increase) in inventory		-
Increase (decrease) in accounts payable and accrued liabilities		<u>39,385</u>
Total adjustments		<u>126,556</u>
Net cash provided by operating activities	\$	<u><u>44,385</u></u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS  
June 30, 2007**

<u>Assets</u>	Agency Funds	Trust Fund		Total
		Retirement Benefit Trust Fund	Guaranteed Investment Contract Trust Fund	
Cash and cash equivalents	\$ 29,300	\$ 1,746,036	\$ -	\$ 1,746,036
Investment	-	-	19,462,298	19,462,298
Interest receivable	-	23,076	79,082	102,158
Due from other funds	-	1,120	-	1,120
<b>Total assets</b>	<b>\$ 29,300</b>	<b>1,770,232</b>	<b>19,541,380</b>	<b>21,311,612</b>
 <u>Liabilities</u> 				
Liabilities:				
Accounts payable & accrued liabilities	\$ 29,300	-	-	-
<b>Total liabilities</b>	<b>\$ 29,300</b>	<b>-</b>	<b>-</b>	<b>-</b>
 <u>Net Assets</u> 				
Net assets held in trust for retirement benefit / GIC		1,770,232	19,541,380	21,311,612
<b>Total net assets</b>		<b>\$ 1,770,232</b>	<b>\$ 19,541,380</b>	<b>\$ 21,311,612</b>

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, 2007**

	Retirement Benefit Trust Fund	Guaranteed Investment Contract Trust Fund	Total
<u>Additions:</u>			
Contributions	\$ 2,195	\$ -	\$ 2,195
Interest	87,716	441,380	529,096
Total additions	89,911	441,380	531,291
<u>Deductions:</u>			
Total deductions	-	-	-
Change in net assets	89,911	441,380	531,291
 <u>Other financial sources:</u>			
Transfer in (out)	-	19,100,000	19,100,000
Net assets held in trust for retirement benefits, July 1, 2006	1,680,321	-	1,680,321
Net assets held in trust for retirement benefits, June 30, 2007	\$ 1,770,232	\$ 19,541,380	\$ 21,311,612

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2007**

**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**  
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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**  
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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**  
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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 generally within 90 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 \$245 million and over 8,175 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, \$40.2 million in projects have been awarded to purchase over 27,071 tons of emission reductions. During fiscal year 2007, eight contracts were awarded in the amount of \$4.42 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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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use by certain small or new RECLAIM (Regional Clean Air Incentives Market) participants. AQIP stands for Air Quality Investment Program.

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

Rule 1121 Mitigation Fee Program – Established in fiscal year 2004 to issue program announcements for projects under the Rule 1121 Mitigation Fee Program. Under Rule 1121 – Control of Nitrogen Oxides (NO<sub>x</sub>) 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<sub>x</sub> 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 902 projects totaling \$139.7 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 4,500 vehicles and 22 infrastructure/charging stations, totaling \$96 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  $\leq$  10 microns (PM<sub>10</sub>) 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 PM<sub>10</sub> 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.”

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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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 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, who are members of the Los Angeles County Employees Retirement Association, which operates as a cost-sharing multi-employer defined benefit plan. Note VIII contains more information about the AQMD’s retirement plans.
- Guaranteed Investment Contract Trust Fund – Used to account for the \$19.1 million Guaranteed Investment Contract executed for the defeasance of a portion of AQMD’s debt service on Pension Obligation Bonds.

**D. Assets, Liabilities and Net Assets or Equity**

**1. Cash and Cash Equivalents**

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

**2. Investments**

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

**3. Capital Assets and Depreciation**

Land, equipment, buildings and improvements are valued at cost unless obtained by donation in which case the assets are recorded at the appraised value at the date of receipt. Capital Asset purchases with values of at least \$5,000 and with an expected useful life of three years or more are capitalized.

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

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

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

**4. Inventories**

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

**5. Compensated Absences**

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

**6. Self-Insurance**

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

**7. Long-term Obligation**

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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8. Reserves and Designations**

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

The following table shows reserved and unreserved fund balances as of June 30, 2007:

	<b><u>General Fund</u></b>	<b><u>Major Governmental Funds</u></b>	<b><u>Other Governmental Funds</u></b>	<b><u>Total</u></b>
Reserved for:				
Encumbrances	\$ 6,832,427	\$ 112,517,603	\$ 17,294,502	\$ 136,644,532
Inventories	<u>59,646</u>	<u>-</u>	<u>-</u>	<u>59,646</u>
Total reserved fund balances	<u>6,892,073</u>	<u>112,517,603</u>	<u>17,294,502</u>	<u>136,704,178</u>
Unreserved, designated for:				
Self-insurance	2,000,000	-	-	2,000,000
Community Health Projects	6,000,000	-	-	6,000,000
Permit Streamlining	1,473,125	-	-	1,473,125
Equipment replacement	2,000,000	-	-	2,000,000
Facility refurbishing	943,642	-	-	943,642
Budget stabilization	8,000,000	-	-	8,000,000
Unemployment claims	80,000	-	-	80,000
Enhanced compliance activities	213,269	-	-	213,269
Unreserved, undesignated	<u>16,577,864</u>	<u>137,075,374</u>	<u>13,867,383</u>	<u>167,520,621</u>
Total unreserved fund balances	<u>37,287,900</u>	<u>137,075,374</u>	<u>13,867,383</u>	<u>188,230,657</u>
Total fund balances	<u>\$ 44,179,973</u>	<u>\$ 249,592,977</u>	<u>\$ 31,161,885</u>	<u>\$ 324,934,835</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
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June 30, 2007**

**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 GASB pronouncements 40 and 44:

**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.

**GASB Statement 45, “Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions”**

This statement will require State and Local Governments to include in the financial reports information quantifying the unfunded liabilities associated with retiree health benefits. The statement will become effective for fiscal periods beginning after December 15, 2006 for governments with annual revenue of \$100 million or more. AQMD will implement GASB 45 in the next fiscal year.

**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, 2007.

	Primary Government	Component Unit
Cash on hand	\$ 972,808	-
Cash in bank	56,101	\$ 661,682
Cash equivalents in pooled investments	317,871,129	-
	<u>\$ 318,900,038</u>	<u>\$ 661,682</u>

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**DEPOSITS**

At June 30, 2007, the carrying amount of the AQMD's bank deposits was \$56,101 and the bank balance was \$81,500. The entire amount was covered by federal depository insurance.

At June 30, 2007, the carrying amount and bank balance of the AQMD's component unit bank deposits was \$661,682 of which \$100,000 was covered by federal depository insurance. The remaining \$561,682 in excess of \$100,000 was collateralized as required by state law.

**INVESTMENTS**

At June 30, 2007 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 \$317,871,129 is stated at fair value. Investments in the amount of \$20,000,000 are reported at amortized cost which approximates market value.

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 30 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.

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- Bankers acceptances – credit requirements shall be a minimum of 2-F1 for Fitch or P-1/Aaa for Moody’s Investors Service.
- Negotiable certificates of deposit – shall be a minimum of 2-F1 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%
- 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, 2007.

	Fair Value	Investment Maturities		
		<1 Year	1-2 years	2-3 years
Cash:				
On hand	\$ 972,808	-	-	-
In bank	56,101	-	-	-
Total cash	<u>1,028,909</u>	<u>-</u>	<u>-</u>	<u>-</u>
Pooled investments:				
Investment in Los Angeles County’s Pooled Surplus Investment (PSI) Fund	\$ 277,865,621	\$ 277,865,621	\$ -	\$ -
Investment in Local Agency Investment Fund	40,005,508	40,005,508	-	-
Total cash equivalents	<u>317,871,129</u>	<u>317,871,129</u>	<u>-</u>	<u>-</u>
Investments:				
U.S. Government Securities	20,000,000	20,000,000	-	-
Total Investments	<u>20,000,000</u>	<u>20,000,000</u>	<u>-</u>	<u>-</u>
Sub-total pooled investments/ investments	\$ 337,871,129	\$ 337,871,129	\$ -	\$ -
Total cash, cash equivalents & investments	<u>\$ 338,900,038</u>	<u>\$ 337,871,129</u>	<u>\$ -</u>	<u>\$ -</u>



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**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 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, 2007, 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, 2007, the AQMD had \$40,005,508 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.

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**III. DUE FROM OTHER GOVERNMENT AGENCIES AND ACCOUNTS  
RECEIVABLE**

Due from other government agencies at June 30, 2007 consists of the following:

State Air Resources Board	\$ 50,000
Department of Motor Vehicles	15,032,374
Environmental Protection Agency	2,698,122
DHS Special Monitoring	559,083
City of LA (Emission Test of Trucks)	150,000
General Services Administration (Lease)	4,447
Department of Defense	
US Army Robert Morris Acquisition Center	317,465
D.O.D. Revenue Contract	<u>822,130</u>
Total	<u>\$19,633,621</u>

Accounts Receivable consist of the following at June 30, 2007:

Air toxics "Hot Spots", emission fees, permits, annuals and source testing	\$2,906,383
Clean fuels/stationary sources	302,355
Miscellaneous receivables	<u>410,151</u>
Subtotal	3,618,889
Less: Allowance for doubtful accounts	<u>(330,000)</u>
Total	<u>\$3,288,889</u>

**IV. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The Interfund Receivables and Payables for year ending June 30, 2007 are as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Clean Fuels Fund	\$ 487,214
General Fund	Mobile Sources Air Pollution Reduction Fund	61,690
General Fund	Air Toxics Trust Fund	988,745
General Fund	Carl Moyer Fund	1,770,190
General Fund	Air Quality Investment Fund	143,729
Carl Moyer Fund	General Fund	562,322
Rule 1173 Mitigation Fund	General Fund	35,600
BP Arco Settlement Project	General Fund	141,586
Clean Fuels Fund	General Fund	2,762
Retirement Benefit Trust Fund	General Fund	<u>1,120</u>
Total		<u>\$ 4,194,958</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.

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Interfund transfers for the year ended June 30, 2007, consisted of the following amounts:

Fund Transferred From	Fund Transferred To								Total
	General Fund	Dry Cleaners Financial-Incentives Grant Program	NGV Partnership	Advanced Technology, Outreach & Education	Clean Fuels	Carl Moyer	Rule 1173 Mitigation Fee Special Revenue	Guaranteed Investment Contract Trust Fund	
General Fund	\$ -	\$ -	\$ -	\$ 105,000	\$ -	\$ -	\$ -	\$ 19,100,000	\$ 19,205,000
BP Arco Settlement Projects	3,048,414 *	-	-	-	-	-	150,000	-	3,198,414
SCAQMD Building Corporation	296,094	-	-	-	-	-	-	-	296,094
Clean Fuels	-	-	25,000	40,000	-	170,000	-	-	235,000
Advanced Tech, Outreach & Education	-	-	-	-	40,000	-	-	-	-
Rule 1309.1 Priority Reserve	146,591	-	-	-	-	-	-	-	146,591
Air Quality Assistance	-	250,000	-	-	-	-	-	-	250,000
NGV Partnership	659	-	-	-	-	-	-	-	659
Air Quality Investment	116,000	-	-	-	-	-	-	-	116,000
<b>Total</b>	<b>\$ 3,607,758</b>	<b>\$ 250,000</b>	<b>\$ 25,000</b>	<b>\$ 145,000</b>	<b>\$ 40,000</b>	<b>\$ 170,000</b>	<b>\$ 150,000</b>	<b>\$ 19,100,000</b>	<b>\$ 23,487,758</b>

\* Amount transferred from BP Arco to General Fund \$3,190,000  
Amount transferred from General Fund to BP Arco (141,586)  
\$3,048,414

The AQMD Governing Board approved the following:

- Transfer of \$105,000 in June 2007 from the Science and Technology Advancement Budget to Advance Technology, Outreach and Education Fund to support Low and Zero-Emission Stationary Source Projects.
- Adopted a resolution in December 2006 authorizing the execution of a Guaranteed Investment Contract and Escrow Agreement to defease a portion of AQMD's current debt service, (Pension Obligation Bonds) in the amount of \$19.1 million from the General Fund, Undesignated Fund Balance.
- Transfer of \$290,000 in May 2006 from the BP Arco Settlement Projects Fund to the General Fund to cover the budget for an additional Refinery Inspector including a vehicle, for Stationary Source Research & Development Funding in Technology Advancement Office, and for a Request for Proposal to select a consultant to assist with Health Program Management.
- Transfer of \$400,000 in September 2006 from the BP Arco Settlement Projects Fund to the General Fund to budget for air monitoring in the port-community area and along the I-710 Freeway Corridor and purchase of additional field instruments.
- Transfer of \$500,000 in December 2006 from the BP Arco Settlement Projects Fund to the General Fund to appropriate additional funds for outside counsel defending railroad litigation.

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- Transfer of \$700,000 in January 2007 from the BP Arco Settlement Projects Fund to the General Fund to amend the existing contract with Jones Day, LLC to assist AQMD in defending the railroad rules.
- Transfer of \$850,000 in April 2007 from the BP Arco Settlement Projects Fund to the General Fund for amending existing contracts with specialized legal firms for railroad litigation.
- Transfer of \$200,000 in April 2006 from the BP Arco Settlement Projects Fund to the General Fund to cover the budget for AQMD outreach and education activities.
- Transfer of \$250,000 in May 2007 from the BP Arco Settlement Projects Fund to the District Counsel FY 2006-07 budget and authorize the amendment of existing contracts with Shute, Mihaly & Weinberger and with Woodruff, Spradlin & Smart or other equally-qualified outside counsel as the need arises.
- Transfer of \$141,586 from the General Fund to the BP Arco Settlement Projects Fund to return unspent money on outreach and education activities and air monitoring program in the port-community area and along I-710 Freeway corridor.
- Transfer of \$146,591 in September 2006 from the Rule 1309.1 Priority Reserve Fund to the General Fund to execute contracts for projects involving exhaust after-treatment systems for three different types of locomotive engines.
- Transfer of \$659 in February 2007 from the Natural Gas Vehicle Partnership Fund to the General Fund for meeting expenses.
- Transfer of \$116,000 in February 2007 from the Air Quality Investment Fund to the General Fund for the Science and Technology's FY 2006-07 budget to solicit outside business to assist in implementing AQMD's "Mow Down Air Pollution 2007" program.
- Transfer of \$25,000 in February 2007 from the Clean Fuels Fund to the Natural Gas Vehicle Partnership as AQMD's contribution to the Partnership Fund.
- Transfer of \$170,000 in February 2007 from the Clean Fuels Fund to the Carl Moyer Program Fund AB923 to fund the Colton Joint Unified School District grant award.
- Transfer of \$150,000 in March 2007 from the BP Arco Settlement Projects Fund to the Rule 1173 Mitigation Fee Special Revenue Fund to execute contracts for the refinery fence line monitoring pilot program.
- Transfer of \$250,000 in April 2007 from the Air Quality Assistance Fund to the Dry Cleaners Financial – Incentives Grant Program for transitioning to non-perc, non-ozone forming technologies.
- Transfer in September 2006 of remaining balance in the AQMD Building Corporation Restricted Fund to the General Fund in the amount of \$296,094.

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A temporary fund transfer of \$40,000 from the Clean Fuels Fund was made in February 2007 to cover the temporary overdraft in the Advanced Technology, Outreach and Education Fund while awaiting receipt of funds. This was subsequently transferred back.

**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, 2007 are as follows:

	<u>Balance July 1, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2007</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	73,829,764	43,598	(25,857)	73,847,505
Equipment	<u>20,887,021</u>	<u>2,705,461</u>	<u>(963,040)</u>	<u>22,629,442</u>
Total capital assets being depreciated	<u>94,716,785</u>	<u>2,749,059</u>	<u>(988,897)</u>	<u>96,476,947</u>
Less Accumulated Depreciation for:				
Buildings and improvements	(35,528,804)	(2,262,140)	(19,851)	(37,810,795)
Equipment	<u>(16,110,358)</u>	<u>(1,825,947)</u>	<u>1,008,748</u>	<u>(16,927,557)</u>
Total accumulated depreciation	<u>(51,639,162)</u>	<u>(4,088,087)</u>	<u>988,897</u>	<u>(54,738,352)</u>
Net capital assets being depreciated	<u>43,077,623</u>	<u>(1,339,028)</u>	<u>0</u>	<u>41,738,595</u>
Net capital assets, governmental activities	<u>\$ 51,907,415</u>	<u>\$ (1,339,028)</u>	<u>\$ 0</u>	<u>\$ 50,568,387</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>(297,023)</u>	<u>(87,171)</u>	<u>0</u>	<u>(384,194)</u>
Net capital assets, business-type activities	<u>\$ 313,177</u>	<u>\$ (87,171)</u>	<u>\$ 0</u>	<u>\$ 226,006</u>

For the year ended June 30, 2007, the depreciation expense of \$4,088,087 was charged to the AQMD's functions/programs in the governmental activities as follows:

Advance clean air technology	\$ 243,895
Ensure compliance with clean air rules	1,401,061
Customer service	221,565
Develop programs to achieve clean air	205,415
Develop rules to achieve clean air	193,455
Monitoring air quality	1,131,433
Permit review	628,806
Policy support	<u>62,457</u>
Total depreciation expense	<u>\$4,088,087</u>

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**VI. LONG-TERM DEBT**

The following is a summary of long-term obligation transactions of the AQMD for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance</u> <u>June 30, 2007</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>
<b>Governmental Activities:</b>						
Claims payable:						
General liability	\$ 13,160	\$ 26,069	\$ 2,296	\$ 36,933	\$ 18,633	\$ 18,300
Workers' compensation	1,415,412	414,955	387,619	1,442,748	400,000	1,042,748
Compensated absences	12,300,972	1,300,217	661,497	12,939,692	437,580	12,502,112
Installment Sale Obligation:						
Building	44,195,000	-	4,565,000	39,630,000	4,595,000	35,035,000
Installment pension obligation bonds	<u>67,456,896</u>	<u>-</u>	<u>3,305,000</u>	<u>64,151,896</u>	<u>3,675,000</u>	<u>60,476,896</u>
Total	<u>\$125,381,440</u>	<u>\$1,741,241</u>	<u>\$8,921,412</u>	<u>\$118,201,269</u>	<u>\$9,126,213</u>	<u>\$109,075,056</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, 2007, \$2,095,000 in principal and \$969,859 in interest were paid on the bonds. The principal balance outstanding at June 30, 2007 amounted to \$19,341,896.

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

<b>Year Ending</b> <b>June 30</b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
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	2,960,000	104,932	3,064,932
2013-2017	3,822,027	11,501,983	15,325,000
2018-2022	<u>2,579,869</u>	<u>12,745,126</u>	<u>15,324,995</u>
Total	<u>\$ 19,341,896</u>	<u>\$ 26,637,257</u>	<u>\$ 45,980,143</u>

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**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:

<b>Year Ending</b>				
<b>June 30</b>	<b>Principal</b>		<b>Interest</b>	<b>Total</b>
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	2,050,000		2,077,364	4,127,364
2013-2017	12,050,000		8,586,596	20,636,596
2018-2022	15,940,000		4,692,323	20,632,323
2023-2024	7,790,000		467,631	8,257,631
Total	<u>\$ 44,810,000</u>	<u>\$</u>	<u>25,034,684</u>	<u>\$ 69,844,684</u>

**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, 2007, the remaining balance is \$7,380,000.

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, 2007, 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.

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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, 2007, the remaining balance is \$23,635,000.

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:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	5,240,000	763,342	6,003,342
2013-2015	<u>15,130,000</u>	<u>877,783</u>	<u>16,007,783</u>
Total	<u>\$39,630,000</u>	<u>\$ 6,911,613</u>	<u>\$46,541,613</u>

**Allocation of Interest Expenses**

Total interest expenses on long-term debt for the year ended June 30, 2007 amounted to \$3,862,570. The following is the interest expense allocated to the various functional activities categories:

Advance clean air technology	\$ 228,378
Ensure compliance with clean air rules	1,392,823
Customer service	320,133
Develop programs to achieve clean air	296,631
Develop rules to achieve clean air	254,174
Monitoring air quality	375,691
Permit review	910,567
Policy support	<u>84,173</u>
Total interest on long-term debt	<u>\$3,862,570</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 \$150,000,000 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 and \$1 million employer's



**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**  
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liability losses in excess of self-insured/retained amount of \$750,000 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, 2007, \$1,442,748 and \$36,933, 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, 2007, 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, 2006 and 2007:

	<u>General and Auto Liability</u>	<u>Workers' Compensation</u>	<u>Totals</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	<u>(30,677)</u>	<u>(390,101)</u>	<u>(420,778)</u>
Claims payable, June 30, 2006	<u>\$ 13,160</u>	<u>\$ 1,415,412</u>	<u>\$ 1,428,572</u>
Claims payable, July 1, 2006	\$ 13,160	\$ 1,415,412	\$ 1,428,572
Current year claims and changes in estimates	26,069	414,955	441,024
Claims payments	<u>(2,296)</u>	<u>(387,619)</u>	<u>(389,915)</u>
Claims payable, June 30, 2007	<u>\$ 36,933</u>	<u>\$ 1,442,748</u>	<u>\$ 1,479,681</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, 2007 amounted to \$21,660,973 (\$20,876 to LACERA and \$21,640,097 to SBCERA, of which \$10 million was a lump-sum one time pre-payment of the portion of its Unfunded Actuarial Accrued Liability (UAAL) owed to SBCERA).

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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 2006-07 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, 2007 was \$109,694. The AQMD's contribution for the same period was \$20,876. Copies of LACERA's annual financial report may be obtained from their executive office: 300 N. Lake Avenue, Pasadena, CA 91101.

**San Bernardino County Employees' Retirement Association**

**Plan Description**

The AQMD contributes to the SBCERA, a cost-sharing multiple-employer defined benefit pension plan operating under the California County Employees Retirement Act of 1937. SBCERA is controlled by its own board, the Board of Retirement. It acts as a fiduciary agent for the accounting and control of employer and employee contributions, and 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 – 3<sup>rd</sup> 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, 2007 were 21.52% for management, confidential and any employee who started before July 1, 1979 and 18.48% for non-Management and non-Confidential employees who started on or after July 1, 1979.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
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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, 2007, the AQMD's annual pension cost and actual contributions for its 739 employees who are SBCERA members were \$21,640,097 of which \$10 million was a lump-sum one time pre-payment to reduce the UAAL. The AQMD employee contributions to the plan amounted to \$3,656,907. The required contributions for the year ended June 30, 2006 were determined as part of the June 30, 2005 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, 8.00% per annum, which includes an inflation component of 4%; (b) projected salary increases of 4.25% per annum, including inflation component of 3.75%; and (c) cost of living adjustments for retirees contingent upon CPI with a 2% maximum.

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) prior to June 30, 2002 are amortized as a level percentage of payrolls over a twenty-year period. Any new UAAL after June 30, 2002 will be amortized over a twenty-year period effective with that valuation.

**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>
2007	\$21,640,097*	100%	-
2006	\$11,045,571	100%	-
2005	\$9,122,867	100%	-

\*Includes \$10 million lump-sum one time pre-payment to reduce the UAAL.

**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.

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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, 2007, investments with a fair value of \$80,628,471 are held in trust.

**X. COMMITMENTS**

**Guaranteed Loans**

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

In June 2001, the AQMD entered into an agreement with the California Pollution Control Financing Authority (CPCFA) to be an "independent contributor" to the California Capital Access Program (CalCAP). The AQMD transferred \$100,000 to the CPCFA to cover borrower fees on any qualified small business CalCAP loans for air quality-related equipment or processes. AQAF's fund balance amounted to \$2,509,562 at fiscal year ended June 30, 2007.

**Operating Leases**

Rental expense for noncancelable operating leases was \$261,592 for the year ended June 30, 2007. Future minimum lease payments under noncancelable operating leases of the AQMD total as follows:

Year Ending June 30, 2012	<u>\$1,141,000</u>
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The lease for the office equipment expires in June and December 2011 while the lease of the South Bay satellite office expires September 30, 2011.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**  
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**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. Similarly, suit has been filed against the AQMD in Natural Resources Defense Council v. SCAQMD, which could include attorneys' fees in the amount of \$500,000. Funds are set aside to cover any such claim, and the costs of defending the suit 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, 2007.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
GENERAL FUND - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE  
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Emission fees	\$ 22,125,200	\$ 22,125,200	\$ 21,771,497	\$ (353,703)
Annual renewal fees	34,798,650	34,798,650	34,610,682	(187,968)
Permit processing fees	17,228,702	17,228,702	16,120,262	(1,108,440)
Clean fuels mobile / stationary sources	21,018,100	21,018,100	22,820,434	1,802,334
Air toxics "Hot Spots"	1,912,000	1,912,000	1,700,118	(211,882)
Transportation programs	838,529	838,529	1,145,806	307,277
State subvention	4,022,000	4,022,000	4,021,970	(30)
Federal grant	7,371,700	10,224,158	7,887,278	(2,336,880)
Interest	1,966,700	1,966,700	3,570,915	1,604,215
Lease income	359,900	359,900	365,559	5,659
Source test/analysis fees	478,863	478,863	528,653	49,790
Hearing Board fees	673,725	673,725	469,041	(204,684)
Penalties/settlements	3,500,000	3,500,000	13,211,151	9,711,151
Subscriptions	25,000	25,000	22,315	(2,685)
Other revenue	790,000	790,000	847,899	57,899
Total revenues	<u>117,109,069</u>	<u>119,961,527</u>	<u>129,093,580</u>	<u>9,132,053</u>
<b>Expenditures:</b>				
Current:				
Salaries and employee benefits	87,543,893	88,424,749	83,488,915	4,935,834
Insurance	1,250,000	1,250,198	1,265,932	(15,734)
Rent	712,290	824,484	466,780	357,704
Supplies	2,478,076	3,224,680	2,838,372	386,308
Contract and special services	8,127,822	17,658,226	14,699,098	2,959,128
Maintenance	1,261,124	2,863,552	1,545,485	1,318,067
Travel and auto	478,620	791,124	606,657	184,467
Utilities	1,853,619	1,853,619	1,685,742	167,877
Communications	629,529	682,192	489,779	192,413
Uncollectible accounts	-	-	4,903	(4,903)
Other	970,399	1,137,314	797,467	339,847
Capital outlays	998,000	4,060,946	3,273,369	787,577
Debt service:				
Principal	7,870,000	7,870,000	7,870,000	-
Interest	4,950,304	4,769,906	3,967,067	802,839
Total expenditures	<u>119,123,676</u>	<u>135,410,990</u>	<u>122,999,566</u>	<u>12,411,424</u>
Net change in budgetary fund balances	\$ <u>(2,014,607)</u>	\$ <u>(15,449,463)</u>	\$ <u>6,094,014</u>	\$ <u>21,543,477</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, 2007**

**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 2006-07 was prepared and subsequently adopted at the May 2006 meeting of the Governing Board. The Fiscal Year 2006-07 Adopted Budget and the final fee schedules became effective on July 1, 2006.

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 \$16,287,314 and revenue adjustments of \$2,852,458 were approved by the Governing Board in Fiscal Year 2006-07.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2007**

**NOTE 2 – GENERAL FUND BUDGETARY BASIS RECONCILIATION**

The General Fund Budgetary Basis under Required Supplementary Information 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 basis of budgeting that differs from GAAP is modified accrual basis plus encumbrances. The following is a reconciliation of differences for the fiscal year ended June 30, 2007:

Expenditures and encumbrances (budgetary basis), June 30, 2007	\$122,999,566
Add: payments on encumbrances open at July 1, 2006	2,839,815
Less: encumbrances open at June 30, 2007	<u>(5,205,881)</u>
Expenditures (GAAP basis), June 30, 2007	<u>\$120,633,500</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, 2007**

**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, 2007**

replacement and retrofit of high-emitting diesel-fueled school buses in the South Coast Air Basin. Funding for a total of \$83.5 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 419 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 2,500 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, 2007**

- 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 PM<sub>10</sub> (Particulate Matter ≤ 10 microns) and/or NO<sub>x</sub> (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. In fiscal year 2006-07, there was no transaction in this fund.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2007**

	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	\$ 58,010	\$ 929,904	\$ 99,013	\$ 2,355,789	\$ 257,122
Interest receivable	804	11,317	182	35,465	-
Due from other governmental agency	-	-	-	-	-
Due from other funds	-	-	-	-	-
Accounts receivable, net	-	1,866,195	-	-	15,400
Total assets	\$ 58,814	\$ 2,807,416	\$ 99,195	\$ 2,391,254	\$ 272,522
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ -	\$ 437,540	\$ 19,475	\$ -	\$ -
Due to other funds	-	988,745	-	-	-
Total liabilities	-	1,426,285	19,475	-	-
Fund Balances:					
Reserved for encumbrances	-	-	-	-	5,500
Unreserved	58,814	1,381,131	79,720	2,391,254	267,022
Total fund balances	58,814	1,381,131	79,720	2,391,254	272,522
Total liabilities and fund balances	\$ 58,814	\$ 2,807,416	\$ 99,195	\$ 2,391,254	\$ 272,522

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 June 30, 2007**

	Special Revenue		
<u>Assets</u>	Lower-Emission School Bus Fund	Zero Emission Vehicle Incentive Fund	AES Settlement Projects Fund
Cash and cash equivalents	\$ 13,983,045	\$ 572,102	\$ 3,598,519
Interest receivable	196,871	7,926	51,281
Due from other governmental agency	-	-	-
Due from other funds	-	-	-
Accounts receivable, net	-	-	-
Total assets	\$ 14,179,916	\$ 580,028	\$ 3,649,800
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable & accrued liabilities	\$ 1,557,798	\$ -	\$ -
Due to other funds	-	-	-
Total liabilities	1,557,798	-	-
Fund Balances:			
Reserved for encumbrances	10,745,499	60,000	2,309,319
Unreserved	1,876,619	520,028	1,340,481
Total fund balances	12,622,118	580,028	3,649,800
Total liabilities and fund balances	\$ 14,179,916	\$ 580,028	\$ 3,649,800

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2007**

	Special Revenue				
<u>Assets</u>	CARB ERC Bank Fund	LADWP Settlement Fund	State-Emissions Mitigation Fund	Natural Gas Vehicle Partner Fund	State BUG Program Fund
Cash and cash equivalents	\$ 509,654	\$ 352,284	\$ 4,959,498	\$ 410,527	\$ 303,147
Interest receivable	7,061	4,895	71,870	4,388	4,200
Due from other governmental agency	-	-	-	-	-
Due from other funds	-	-	-	-	-
Accounts receivable, net	-	-	-	10,000	-
Total assets	\$ 516,715	\$ 357,179	\$ 5,031,368	\$ 424,915	\$ 307,347
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ -	\$ -	\$ 19,058	\$ 44,395	\$ -
Due to other funds	-	-	-	-	-
Total liabilities	-	-	19,058	44,395	-
Fund Balances:					
Reserved for encumbrances	27,696	-	3,073,335	18,405	-
Unreserved	489,019	357,179	1,938,975	362,115	307,347
Total fund balances	516,715	357,179	5,012,310	380,520	307,347
Total liabilities and fund balances	\$ 516,715	\$ 357,179	\$ 5,031,368	\$ 424,915	\$ 307,347

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2007**

<u>Assets</u>	Special Revenue				
	Asthma & Brain Cancer Research Fund	Dry Cleaners Financial Incentives Grant Prog Fund	Rule 1173 Mitigation Fee Fund	CBE / OCE Settlement Agreement Fund	Total
Cash and cash equivalents	\$ 203,537	\$ 302,632	\$ 2,380,055	\$ 689,237	\$ 31,964,075
Interest receivable	2,929	749	25,922	-	425,860
Due from other governmental agency	-	-	-	-	0
Due from other funds	-	-	35,600	-	35,600
Accounts receivable, net	-	-	-	-	1,891,595
Total assets	\$ 206,466	\$ 303,381	\$ 2,441,577	\$ 689,237	\$ 34,317,130
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ 15,568	\$ -	\$ 72,666	\$ -	\$ 2,166,500
Due to other funds	-	-	-	-	988,745
Total liabilities	15,568	-	72,666	-	3,155,245
Fund Balances:					
Reserved for encumbrances	113,907	-	474,924	465,917	17,294,502
Unreserved	76,991	303,381	1,893,987	223,320	13,867,383
Total fund balances	190,898	303,381	2,368,911	689,237	31,161,885
Total liabilities and fund balances	\$ 206,466	\$ 303,381	\$ 2,441,577	\$ 689,237	\$ 34,317,130

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, 2007**

	Special Revenue				
	Air Quality Studies Fund	Air Toxics Fund	Advanced Technology Fund	Air Quality Assistance Fund	Clean Fuels Conference Fund
Revenues:					
Air Toxics "Hot Spots"	\$ -	\$ 188,492	\$ -	\$ -	\$ -
State grant	-	-	-	-	-
Federal grant	-	-	-	-	-
Interest	2,940	31,597	1,017	131,692	-
RECLAIM & executive order mitigation	-	-	-	-	-
Other revenue	-	34,684	-	-	-
<b>Total revenues</b>	<b>2,940</b>	<b>254,773</b>	<b>1,017</b>	<b>131,692</b>	<b>-</b>
Expenditures:					
Contract and special services	-	9,234	54,475	-	-
Other operating expenditures	-	-	-	-	(1,085)
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>9,234</b>	<b>54,475</b>	<b>-</b>	<b>(1,085)</b>
Excess (deficiency) of revenues over (under) expenditures before transfers	2,940	245,539	(53,458)	131,692	1,085
Other financing sources (uses)					
Transfers in	-	-	145,000	-	-
Transfers out	-	-	(40,000)	(250,000)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>105,000</b>	<b>(250,000)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>2,940</b>	<b>245,539</b>	<b>51,542</b>	<b>(118,308)</b>	<b>1,085</b>
Fund balances, July 1, 2006	55,874	1,135,592	28,178	2,509,562	271,437
Fund balances, June 30, 2007	<u>\$ 58,814</u>	<u>\$ 1,381,131</u>	<u>\$ 79,720</u>	<u>\$ 2,391,254</u>	<u>\$ 272,522</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, 2007**

	Special Revenue		
	Lower-Emission School Bus Fund	Zero Emission Vehicle Incentive Fund	AES Settlement Projects Fund
Revenues:			
Air Toxics "Hot Spots"	\$ -	\$ -	\$ -
State grant	1,995,000	-	-
Federal grant	167,961	-	-
Interest	750,217	28,999	191,435
RECLAIM & executive order mitigation	-	-	-
Other	-	-	-
Total revenues	<u>2,913,178</u>	<u>28,999</u>	<u>191,435</u>
Expenditures:			
Contract and special services	2,081,957	-	189,512
Other operating expenditures	4,687	-	-
Capital outlay	-	-	-
Uncollectible accounts	-	-	-
Total expenditures	<u>2,086,644</u>	<u>-</u>	<u>189,512</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>826,534</u>	<u>28,999</u>	<u>1,923</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>826,534</u>	<u>28,999</u>	<u>1,923</u>
Fund balances, July 1, 2006	<u>11,795,584</u>	<u>551,029</u>	<u>3,647,877</u>
Fund balances, June 30, 2007	<u>\$ 12,622,118</u>	<u>\$ 580,028</u>	<u>\$ 3,649,800</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, 2007**

	Special Revenue				
	CARB ERC Bank Fund	LADWP Settlement Fund	State-Emissions Mitigation Program Fund	Natural Gas Vehicle Partner Fund	State BUG Program Fund
Revenues:					
Air Toxics "Hot Spots"	\$ -	\$ -	\$ -	\$ -	\$ -
State grant	-	-	-	-	-
Federal grant	-	-	-	-	-
Interest	25,834	17,999	282,987	15,569	15,367
RECLAIM & executive order mitigation	-	-	-	-	-
Other	-	-	-	135,000	-
<b>Total revenues</b>	<b>25,834</b>	<b>17,999</b>	<b>282,987</b>	<b>150,569</b>	<b>15,367</b>
Expenditures:					
Contract and special services	-	4,796	850,703	76,195	-
Other operating expenditures	-	-	-	248	-
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>4,796</b>	<b>850,703</b>	<b>76,443</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures before transfers	25,834	13,203	(567,716)	74,126	15,367
Other financing sources (uses)					
Transfers in	-	-	-	25,000	-
Transfers out	-	-	-	(659)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,341</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>25,834</b>	<b>13,203</b>	<b>(567,716)</b>	<b>98,467</b>	<b>15,367</b>
Fund balances, July 1, 2006	490,881	343,976	5,580,026	282,053	291,980
Fund balances, June 30, 2007	\$ 516,715	\$ 357,179	\$ 5,012,310	\$ 380,520	\$ 307,347

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, 2007**

	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:				
Air Toxics "Hot Spots"	\$ -	\$ -	\$ -	\$ -
State grant	-	-	-	-
Federal grant	-	-	-	-
Interest	13,611	3,889	85,097	-
RECLAIM & executive order mitigation	-	-	-	-
Other	-	-	700,000	-
Total revenues	<u>13,611</u>	<u>3,889</u>	<u>785,097</u>	<u>-</u>
Expenditures:				
Contract and special services	121,243	65,000	72,666	100,622
Other operating expenditures	-	-	-	-
Capital outlay	-	-	-	-
Uncollectible accounts	-	-	-	-
Total expenditures	<u>121,243</u>	<u>65,000</u>	<u>72,666</u>	<u>100,622</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>(107,632)</u>	<u>(61,111)</u>	<u>712,431</u>	<u>(100,622)</u>
Other financing sources (uses)				
Transfers in	-	250,000	150,000	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>250,000</u>	<u>150,000</u>	<u>-</u>
Net change in fund balances	<u>(107,632)</u>	<u>188,889</u>	<u>862,431</u>	<u>(100,622)</u>
Fund balances, July 1, 2006	<u>298,530</u>	<u>114,492</u>	<u>1,506,480</u>	<u>789,859</u>
Fund balances, June 30, 2007	<u>\$ 190,898</u>	<u>\$ 303,381</u>	<u>\$ 2,368,911</u>	<u>\$ 689,237</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, 2007**

		<u>Special Revenue</u>
		<u>Total</u>
Revenues:		
Air Toxics "Hot Spots"	\$	188,492
State grant		1,995,000
Federal grant		167,961
Interest		1,598,250
RECLAIM & executive order mitigation		-
Other		869,684
Total revenues		<u>4,819,387</u>
Expenditures:		
Contract and special services		3,626,403
Other operating expenditures		3,850
Capital outlay		-
Uncollectible accounts		-
Total expenditures		<u>3,630,253</u>
Excess (deficiency) of revenues over (under) expenditures before transfers		<u>1,189,134</u>
Other financing sources (uses)		
Transfers in		570,000
Transfers out		<u>(290,659)</u>
Total other financing sources (uses)		<u>279,341</u>
Net change in fund balances		<u>1,468,475</u>
Fund balances, July 1, 2006		<u>29,693,410</u>
Fund balances, June 30, 2007	\$	<u><u>31,161,885</u></u>

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 AGENCY FUNDS  
 June 30, 2007**

	SCAQMD Building Corporation Fund	General Purpose Fund	Total
<u>Assets</u>			
Cash and cash equivalents	\$ -	\$ 29,300	\$ 29,300
Interest receivable	-	-	-
Due from other funds	-	-	-
Total assets	\$ -	\$ 29,300	\$ 29,300
<u>Liabilities</u>			
Accounts payable and accrued liabilities	-	29,300	29,300
Total liabilities	\$ -	\$ 29,300	\$ 29,300

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, 2007**

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
<u>General Purpose Fund</u>				
Assets				
Cash	\$ 15,913	\$ 216,005	\$ 202,618	\$ 29,300
Due from other funds	-	-	-	-
Total assets	<u>15,913</u>	<u>\$ 216,005</u>	<u>\$ 202,618</u>	<u>\$ 29,300</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 15,913	\$ 216,005	\$ 202,618	\$ 29,300
Total liabilities	<u>\$ 15,913</u>	<u>\$ 216,005</u>	<u>\$ 202,618</u>	<u>\$ 29,300</u>
<u>SCAQMD Building Corporation Fund</u>				
Assets				
Cash	\$ 534,603	\$ -	\$ 534,603	\$ -
Interest receivable	6,063	-	6,063	-
Total assets	<u>\$ 540,666</u>	<u>\$ -</u>	<u>\$ 540,666</u>	<u>\$ -</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 540,666	\$ -	\$ 540,666	\$ -
Total liabilities	<u>\$ 540,666</u>	<u>\$ -</u>	<u>\$ 540,666</u>	<u>\$ -</u>
<u>Total All Agency Funds</u>				
Assets				
Cash	\$ 550,516	\$ 216,005	\$ 737,221	\$ 29,300
Interest receivable	6,063	-	6,063	-
Due from other funds	-	-	-	-
Total assets	<u>556,579</u>	<u>\$ 216,005</u>	<u>\$ 743,284</u>	<u>\$ 29,300</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 556,579	\$ 216,005	\$ 743,284	\$ 29,300
Total liabilities	<u>\$ 556,579</u>	<u>\$ 216,005</u>	<u>\$ 743,284</u>	<u>\$ 29,300</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				
	2003	2004	2005	2006	2007
<b>Governmental Activities</b>					
Investment in capital assets, net of related debt	\$ 4,007,380	\$ 5,234,119	\$ 6,048,899	\$ 7,712,415	\$ 10,938,387
Restricted for pension assets	-	-	-	736,200	1,926,145
Restricted for special projects/programs	197,959,973	195,731,559	223,952,969	253,867,453	280,754,862
Unrestricted	5,322,562	2,696,301	11,135,334	24,019,696	8,392,205
Total governmental activities net assets	<u>\$ 207,289,915</u>	<u>\$ 203,661,979</u>	<u>\$ 241,137,202</u>	<u>\$ 286,335,764</u>	<u>\$ 302,011,599</u>
<b>Business-type Activities</b>					
Investment in capital assets, net of related debt	565,013	487,546	400,375	313,177	226,006
Unrestricted	47,319	62,362	81,160	72,947	77,947
Total business-type activities net assets	<u>\$ 612,332</u>	<u>\$ 549,908</u>	<u>\$ 481,535</u>	<u>\$ 386,124</u>	<u>\$ 303,953</u>
<b>Primary Government</b>					
Investment in capital assets, net of related debt	4,572,393	5,721,665	6,449,274	8,025,592	11,164,393
Restricted for pension asset	-	-	-	736,200	1,926,145
Restricted for special projects/programs	197,959,973	195,731,559	223,952,969	253,867,453	280,754,862
Unrestricted	5,369,881	2,758,663	11,216,494	24,092,643	8,470,152
Total primary government net assets	<u>\$ 207,902,247</u>	<u>\$ 204,211,887</u>	<u>\$ 241,618,737</u>	<u>\$ 286,721,888</u>	<u>\$ 302,315,552</u>

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Schedule 2

Changes in Net Assets

Last Five Fiscal Years

(accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Expenses</b>					
<b>Governmental Activities</b>					
Advance clean air technology	\$ 5,933,504	\$ 7,255,854	\$ 5,011,874	\$ 5,808,530	\$ 7,067,528
Ensure compliance with clean air rules	33,440,503	38,536,722	37,666,189	36,727,226	42,699,519
Customer service	10,035,584	10,965,904	10,532,066	11,592,984	8,687,842
Develop programs to achieve clean air	6,213,755	7,910,778	7,106,133	7,811,791	8,721,816
Develop rules to achieve clean air	6,563,362	7,915,483	8,130,305	8,046,177	7,350,795
Monitoring air quality	10,032,083	11,883,527	11,591,430	11,794,227	12,229,451
Permit review	18,937,964	21,408,261	21,403,924	23,191,423	24,508,757
Policy support	2,559,042	2,523,809	2,954,538	2,948,274	3,442,207
Special funds activities	94,144,240	62,422,513	59,525,817	64,308,902	62,831,313
Total governmental activities expenses	<u>187,860,037</u>	<u>170,822,851</u>	<u>163,922,276</u>	<u>172,229,535</u>	<u>177,539,228</u>
<b>Business-type Activities:</b>					
Clean Air Store	908	936	662	3,653	-
CNG fueling station	81,005	152,547	165,135	198,788	225,604
Total business-type activities expenses	<u>81,913</u>	<u>153,483</u>	<u>165,797</u>	<u>202,441</u>	<u>225,604</u>
Total primary government expenses	<u>\$ 187,941,950</u>	<u>\$ 170,976,334</u>	<u>\$ 164,088,073</u>	<u>\$ 172,431,976</u>	<u>\$ 177,764,832</u>
<b>Program Revenues</b>					
<b>Government Activities:</b>					
<b>Fees and Charges</b>					
Stationary sources	\$ 62,835,710	\$ 61,932,425	\$ 64,925,373	\$ 68,792,294	\$ 75,200,254
Mobile sources	10,245,290	10,787,342	14,716,865	20,991,833	23,966,240
Operating grants and subventions	7,434,924	9,679,283	8,100,573	8,035,387	8,946,832
Restricted special revenues sources	81,194,075	60,731,099	87,747,227	94,223,386	92,925,386
Total governmental activities program revenues	<u>161,709,999</u>	<u>143,130,149</u>	<u>175,490,038</u>	<u>192,042,900</u>	<u>201,038,712</u>
<b>Business-type Activities:</b>					
Clean Air Store/CNG fueling station	45,055	89,947	97,424	123,625	143,433
Total business-type activities program revenues	<u>45,055</u>	<u>89,947</u>	<u>97,424</u>	<u>123,625</u>	<u>143,433</u>
Total primary government program revenues	<u>\$ 161,755,054</u>	<u>\$ 143,220,096</u>	<u>\$ 175,587,462</u>	<u>\$ 192,166,525</u>	<u>\$ 201,182,145</u>
<b>Net (Expense) Revenue</b>					
Governmental activities	\$ (26,150,038)	(27,692,702)	11,567,762	\$ 19,813,365	\$ 23,499,484
Business-type activities	(36,858)	(63,536)	(68,373)	(78,816)	(82,171)
Total primary government net (expenses) revenue	<u>\$ (26,186,896)</u>	<u>\$ (27,756,238)</u>	<u>\$ 11,499,389</u>	<u>\$ 19,734,549</u>	<u>\$ 23,417,313</u>
<b>General Revenues and Other Changes in Net Assets</b>					
<b>Governmental Activities:</b>					
Grants and subventions - restricted to non-specific stationary source programs	\$ 2,965,584	\$ 2,962,415	\$ 2,964,713	\$ 2,962,539	\$ 2,962,418
Mobile sources - restricted to non-specific mobile source programs	5,621,411	6,229,842	6,282,933	-	-
Interest	1,547,626	845,849	1,273,901	2,887,395	3,570,915
Lease revenue	348,743	372,707	338,961	364,326	365,559
Penalties/settlement	5,795,147	12,232,181	11,295,895	16,074,370	13,211,151
Subscriptions	46,565	36,301	29,512	19,214	22,315
Other	407,016	799,732	2,992,685	545,430	847,899
Transfers	(608,476)	-	-	16,595	(28,803,906)
Total governmental activities	<u>16,123,616</u>	<u>23,479,027</u>	<u>25,178,600</u>	<u>22,869,869</u>	<u>(7,823,649)</u>
<b>Business-type Activities</b>					
Interest	-	1,112	-	-	-
Transfers	608,476	-	-	(16,595)	-
Total business-type activities	<u>608,476</u>	<u>1,112</u>	<u>-</u>	<u>(16,595)</u>	<u>-</u>
Total primary government revenue	<u>\$ 16,732,092</u>	<u>\$ 23,480,139</u>	<u>\$ 25,178,600</u>	<u>\$ 22,853,274</u>	<u>\$ (7,823,649)</u>
<b>Change in Net Assets</b>					
Governmental activities	\$ (10,026,422)	(4,213,675)	\$ 36,746,362	\$ 42,683,233	\$ 15,675,835
Business-type activities	571,618	(62,424)	(68,373)	(95,411)	(82,171)
Total primary government	<u>\$ (9,454,804)</u>	<u>\$ (4,276,099)</u>	<u>\$ 36,677,989</u>	<u>\$ 42,587,822</u>	<u>\$ 15,593,664</u>



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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund										
Reserved	\$ 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	\$ 6,892,073
Unreserved	17,008,363	15,685,167	20,491,915	24,970,898	34,425,246	37,177,128	33,709,091	45,023,178	56,475,321	37,287,900
Total general fund	<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>	<u>\$ 44,179,973</u>
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 82,398,441	\$ 75,231,282	\$ 70,495,534	\$ 78,570,628	\$ 91,723,747	\$ 129,812,105
Unreserved, reported in:										
Special revenue funds	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	150,942,757
Capital Projects funds	-	76,840	-	-	-	-	-	-	-	-
Total all other governmental funds	<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>	<u>\$ 280,754,862</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**

**Schedule 4**

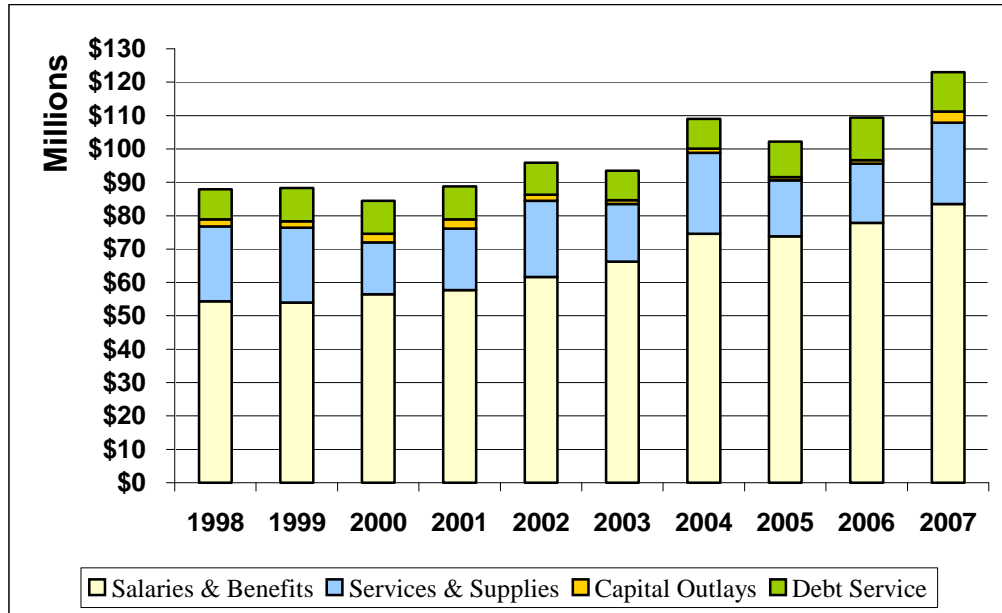
**Changes in Fund Balances of Government Funds**

**Last Ten Fiscal Years**

**(modified accrual basis of accounting)**

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Revenues:</b>										
Emission fees	\$ 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	\$ 21,771,497
Annual operating fees	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	34,610,682
Permit fees	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	16,120,262
Clean fuel / Mobile / Stationary Sources	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	67,582,066
Emission reduction fees	-	-	-	17,223,928	2,300,000	13,054,700	375,000	-	-	-
Air Toxics	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	1,897,395
Transportation	602,159	771,013	717,368	649,664	664,733	688,278	748,006	869,554	895,194	1,145,806
State subvention	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	4,021,970
Federal grant	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	8,067,682
State grant	-	-	-	53,642,620	40,707,602	6,666,447	10,425,742	11,253,989	6,514,346	25,340,534
Interest	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	17,044,049
Lease revenue	124,454	158,917	112,969	141,772	231,099	348,743	372,707	338,961	364,326	365,559
Source test/analysis fees	261,412	193,672	297,975	258,535	308,169	382,502	342,909	321,526	401,487	528,653
Hearing Board	374,061	343,052	262,977	427,769	319,969	276,677	373,924	251,212	655,553	469,041
Penalties/settlements	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	13,281,151
Contracts	13,757	11,090	-	-	-	-	-	-	-	-
Subscriptions	112,230	98,258	64,236	63,113	55,628	46,565	36,301	29,512	19,214	22,315
Reclaim & executive order mitigation	-	-	-	-	16,524,066	626,187	601,086	772,526	842,214	4,919,852
Contributions	1,347,834	588,855	535,463	-	-	-	-	-	-	-
Other revenue	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	4,830,452
<b>Total revenues</b>	<b>126,991,961</b>	<b>124,380,051</b>	<b>144,449,080</b>	<b>231,207,212</b>	<b>222,001,083</b>	<b>178,442,091</b>	<b>166,609,176</b>	<b>202,774,329</b>	<b>214,896,173</b>	<b>222,018,966</b>
<b>Expenditures:</b>										
Salaries and employee benefits	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	83,488,915
Insurance	788,917	961,746	1,002,590	963,050	1,034,296	1,031,651	1,110,014	1,044,518	1,193,345	1,265,932
Rent	1,188,716	1,115,376	1,202,269	1,078,350	721,083	725,320	709,158	783,674	776,438	472,023
Supplies & merchandise purchased	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	2,890,495
Contract and special services	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	75,431,666
Maintenance	870,240	925,734	794,871	786,547	979,146	942,576	1,011,913	995,624	1,120,620	1,101,589
Travel and auto	418,433	462,841	457,998	446,901	437,566	452,749	445,745	433,606	478,091	606,658
Utilities	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	1,685,742
Communications	597,709	673,373	772,237	589,937	527,902	524,011	553,238	491,337	463,665	489,779
Settlement expense	310,000	-	-	-	-	-	-	-	-	-
Uncollectible accounts	271,068	199,678	225,396	156,094	100,779	121,849	374,712	210,871	(38,037)	4,788
Other expenditures	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	1,441,100
Capital outlay	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	2,749,059
Debt service:										
Principal	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	7,870,000
Interest	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	3,967,067
<b>Total expenditures</b>	<b>127,009,753</b>	<b>118,803,560</b>	<b>123,928,715</b>	<b>131,686,943</b>	<b>178,415,762</b>	<b>188,718,636</b>	<b>172,189,586</b>	<b>166,193,252</b>	<b>173,482,830</b>	<b>183,464,813</b>
Excess (deficiency) of revenues over (under) expenditures	(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	38,554,153
<b>Other financing sources (uses):</b>										
Transfer in	-	-	21,406,545	291,950	547,149	7,398,853	14,700,000	291,950	105,095	4,387,758
Transfer out	(390,434)	-	(21,406,545)	(291,950)	(572,149)	(7,398,853)	(14,700,000)	(291,950)	(88,500)	(23,191,664)
Special and extraordinary	-	-	-	-	-	-	-	-	-	(10,000,000)
<b>Total other financing sources (uses)</b>	<b>(390,434)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,595</b>	<b>(28,803,906)</b>
<b>Net change in fund balances</b>	<b>\$ (408,226)</b>	<b>\$ 5,576,491</b>	<b>\$ 20,520,365</b>	<b>\$ 99,520,269</b>	<b>\$ 43,560,321</b>	<b>\$ (10,276,545)</b>	<b>\$ (5,580,410)</b>	<b>\$ 36,581,077</b>	<b>\$ 41,429,938</b>	<b>\$ 9,750,247</b>
Debt service as a percentage of noncapital expenditures	12.5%	8.6%	8.1%	7.7%	5.5%	4.7%	5.3%	6.4%	7.4%	6.6%

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



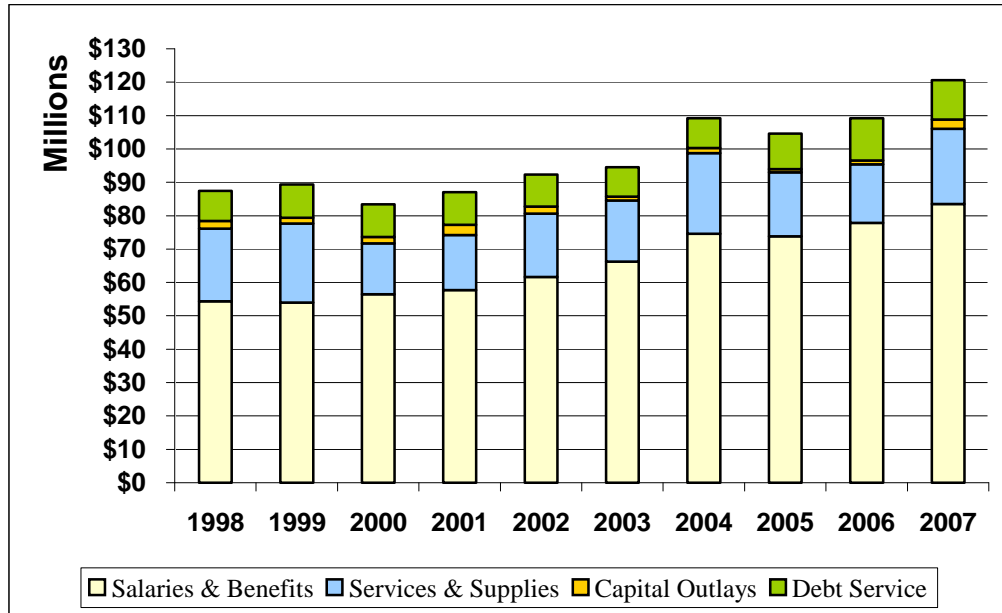
Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1998	\$ 54,400,689	\$ 22,365,484	\$ 2,139,131	\$ 8,981,803	\$ 87,887,107
1999	53,982,139	22,428,955	1,916,009	10,006,526	88,333,629
2000	56,450,869	15,541,026	2,639,293	9,857,197	84,488,385
2001	57,712,043	18,438,222	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
2007	83,488,915	24,400,215	3,273,369	11,837,067	122,999,566

See Notes Associated with Financial Charts page 83.

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
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
2007	83,488,915	22,558,459	2,749,059	11,837,067	120,633,500

See Notes Associated with Financial Charts page 83.

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			
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
2007	46,542	115,825	-	162,367	125.77%	9

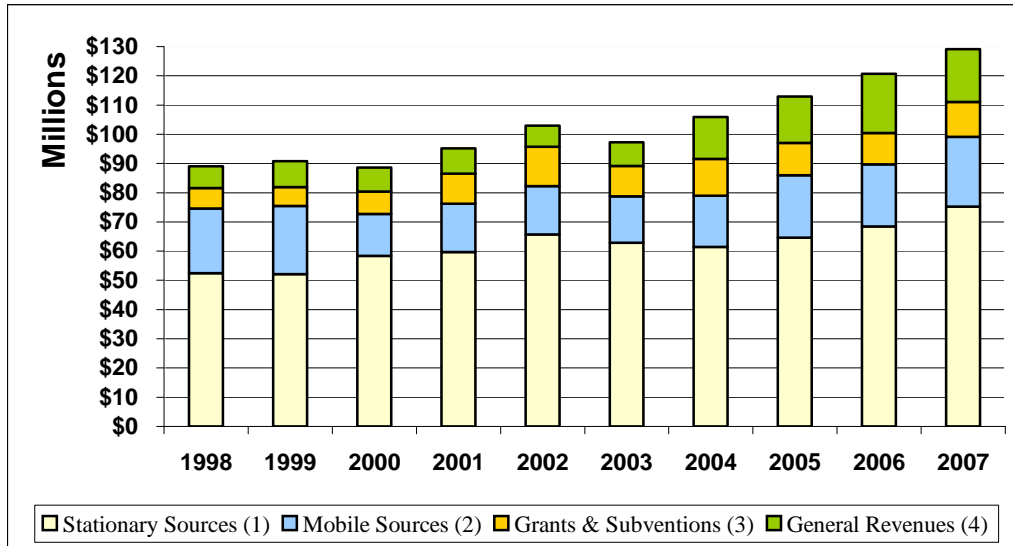
79

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.

(b) See Schedule 13 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
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
2007	75,200,253	23,966,240	11,909,248	18,017,839	129,093,580

(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

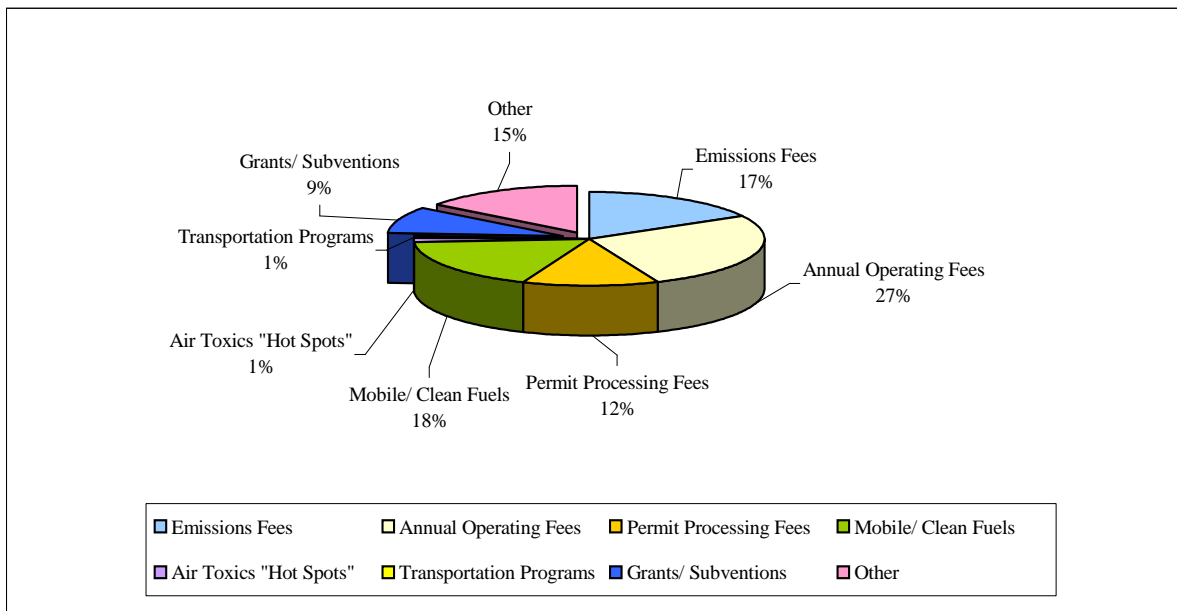
(4) Includes Penalties & Settlements, Interest, Lease Revenue, Other Revenue and Subscriptions

See Notes Associated with Financial Charts page 83.

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 2006-07



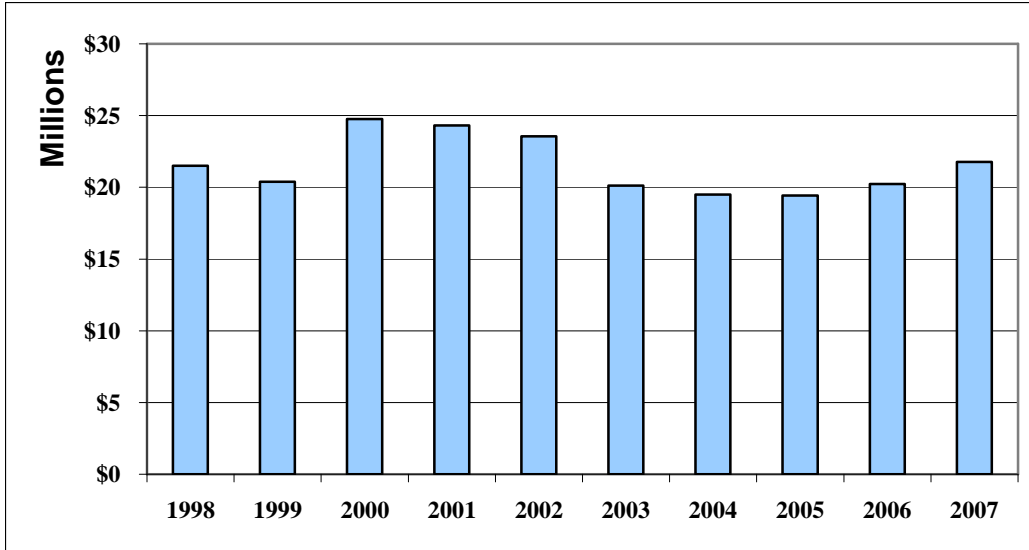
Fee Source Revenue									
Year	Emissions Fees	Annual Operating Fees	Permit Processing Fees	Mobile/ Clean Fuels	Air Toxics "Hot Spots"	Transportation Programs	Grants/ Subventions	Other	Total
1998	\$ 21,497,065	\$ 22,539,400	\$ 6,379,855	\$ 21,504,225	\$ 1,372,438	\$ 602,159	\$ 7,046,503	\$ 8,138,062	\$ 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
2007	21,771,497	34,610,682	16,120,262	22,820,434	1,700,118	1,145,806	11,909,248	19,015,533	129,093,580

\* 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 83.

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
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
2007	21,771,497

See Notes Associated with Financial Charts page 83.



## Notes Associated with Financial Charts

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

- In 2007 the increase in Contract and Special Services of approximately \$5M is primarily due to expenditures related to rail-road litigation.
- In 2007 the increase in Capital Outlay of approximately \$2M is due mainly due to large purchases of Air Monitoring equipment.
- 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)**

- In 2007 the increase in Contract and Special Services of approximately \$4.5M is primarily due to expenditures related to rail-road litigation.
- In 2007 the increase in Capital Outlay of approximately \$1.7M is due mainly due to large purchases of Air Monitoring equipment.
- 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 the Stationary Sources type revenue is primarily due to a 10% increase in annual operating permit renewal fee in 2007. In addition, RECLAIM device-based annual renewal fees were billed in 2007 for the first time.
- Although AQMD collected approximately \$13 million in Penalties and Settlements in 2007 this was less compared to approximately \$16 million collected in 2006 hence the decrease in General Revenue in 2007.
- 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)**

- The increase in Annual Operating Fees is primarily due to a 10% increase in the annual operating permit renewal fee in 2007. In addition, RECLAIM device-based annual renewal fees were billed in 2007 for the first time.
- 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.
- There was an increase in Emission Fees in 2007 due to a 10% increase in rate. However, the impact on the revenue is less due to a general decrease in emissions.
- 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

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Payer	FY 2006-07			FY 1996-97		
	Payment	Rank	% of Total Emission Fees	Payment	Rank	% of Total Emission Fees
BP West Coast Products LLP* (formerly ARCO)	\$ 2,197,320	1	10.1%	\$ 2,283,898	1	11.0%
ExxonMobil Corporation (formerly Mobil Oil Corporation)	1,940,009	2	8.9%	1,001,438	3	4.8%
Chevron Products	1,452,642	3	6.7%	1,883,812	2	9.0%
Equilon Enterprises LLC Shell Oil Products (formerly Texaco Refining)	1,395,754	4	6.4%	911,948	4	4.4%
ConocoPhillips* (formerly Union Oil)	1,220,844	5	5.6%	473,668	8	2.3%
California Portland Cement	719,092	6	3.3%	754,689	5	3.6%
Ultramar, Inc.	617,737	7	2.8%	677,860	6	3.3%
ConocoPhillips* (formerly Unocal Refining)	556,107	8	2.6%	286,026	11	1.4%
Rhodia, Inc.	380,623	9	1.7%	-	-	-
BP West Coast Products LLP* (formerly ARCO CQC Kiln)	302,988	10	1.4%	284,591	12	1.4%
Paramount Petroleum Corporation	272,324	11	1.3%	167,248	17	0.8%
MCP Foods	270,035	12	1.2%	-	-	-
Anheuser-Busch, Inc.	252,535	13	1.2%	-	-	-
Dart Container Corporation	213,789	14	1.0%	-	-	-
City of Long Beach, SERRF Project	211,183	15	1.0%	-	-	-
LASCO Bathware	183,893	16	0.8%	-	-	-
Colmac Energy, Inc.	122,705	17	0.6%	-	-	-
Aera Energy	116,234	18	0.5%	-	-	-
TAMCO	116,112	19	0.5%	180,940	16	0.9%
California Steel Industries	114,017	20	0.5%	-	-	-
Tosco Refining Company*	-	-	-	495,988	7	2.4%
Filtron Corporation	-	-	-	445,305	9	2.1%
Tosco Refining Company*	-	-	-	376,454	10	1.8%
Southern California Edison*	-	-	-	277,727	13	1.3%
Owens-Brockway Glass Container	-	-	-	257,452	14	1.2%
Southern California Edison*	-	-	-	234,987	15	1.1%
City of Los Angeles, DWP	-	-	-	166,148	18	0.8%
Reynolds Metals Company	-	-	-	164,597	19	0.8%
TABC, Inc.	-	-	-	155,422	20	0.7%
Total Paid by Largest Payers at a Single Location	<u>\$ 12,655,943</u>		58.1%	<u>\$ 11,480,198</u>		55.0%
Total Emissions-based Fees Paid by All Emitters	<u>\$ 21,771,497</u>			<u>\$ 21,471,830</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.

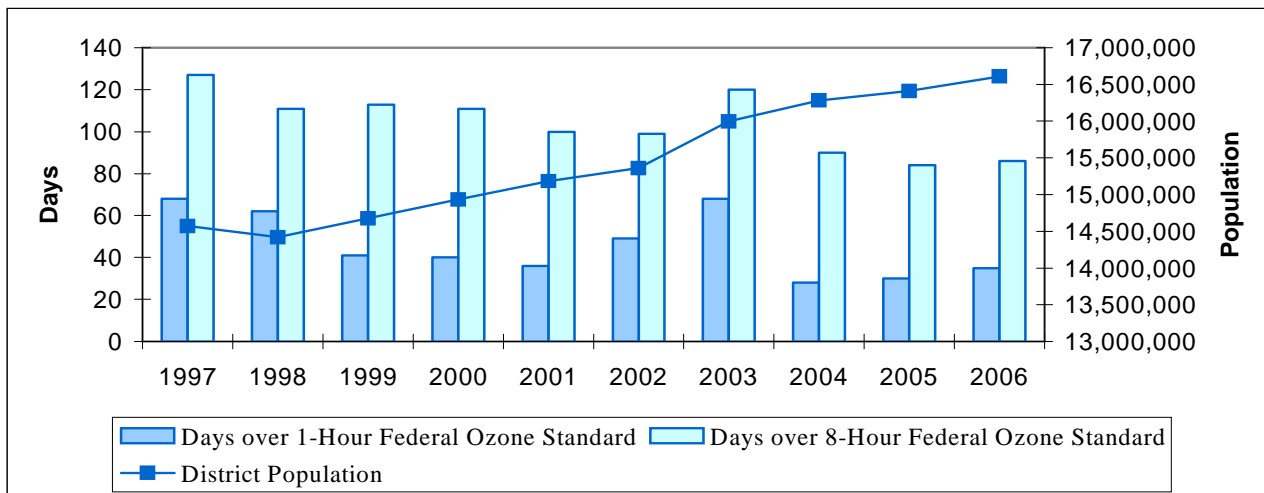
*Orange County* is the second most populated county in the state and lies south of Los Angeles County. When created in 1889, Orange County was named for its abundance of orange groves and thriving agricultural industry. Today, the largest industry employers are trade, transportation, and utilities, professional 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
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
2006	35	86	16,607,472

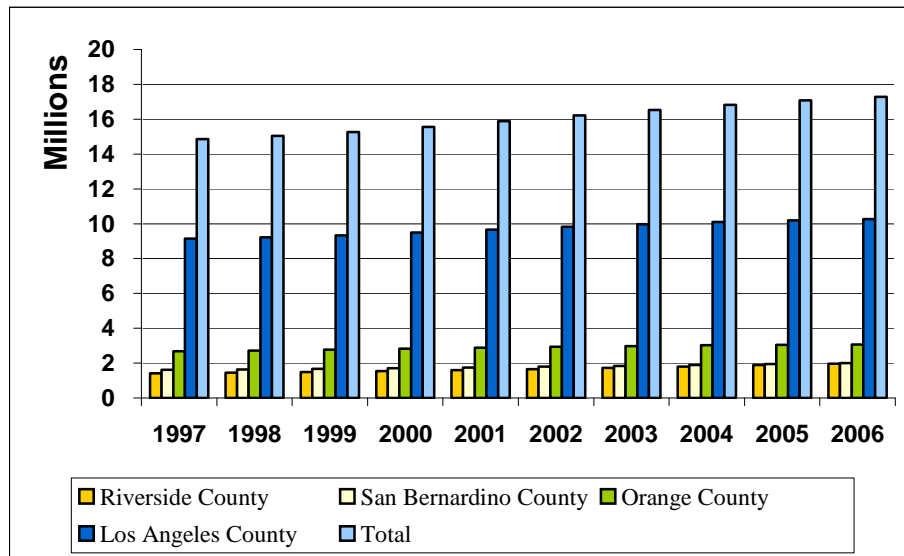
Notes:

- 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.

Source:

South Coast Air Quality Management District ([www.aqmd.gov](http://www.aqmd.gov)); State Subvention Guidance Package

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

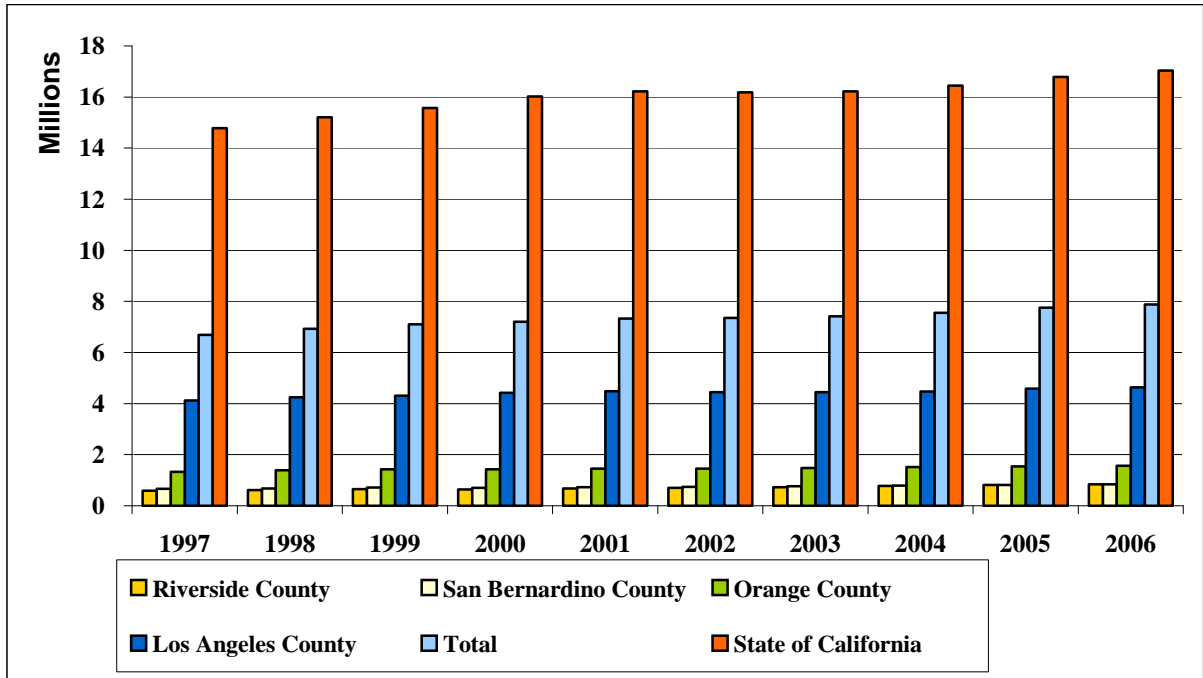


Year	Riverside County	San Bernardino County	Orange County	Los Angeles County	Total	% Increase
1997	1,420,600	1,613,500	2,672,800	9,147,100	14,854,000	0.96%
1998	1,451,400	1,637,900	2,724,500	9,225,800	15,039,600	1.25%
1999	1,490,500	1,666,600	2,776,100	9,330,100	15,263,300	1.49%
2000	1,533,800	1,701,700	2,829,800	9,487,400	15,552,700	1.90%
2001	1,590,000	1,746,800	2,891,300	9,663,500	15,891,600	2.18%
2002	1,653,500	1,793,300	2,941,100	9,829,700	16,217,600	2.05%
2003	1,725,900	1,842,300	2,984,300	9,980,200	16,532,700	1.94%
2004	1,805,500	1,896,200	3,021,600	10,101,500	16,824,800	1.77%
2005	1,885,600	1,948,500	3,050,400	10,191,100	17,075,600	1.49%
2006	1,966,600	1,994,000	3,071,900	10,258,000	17,290,500	1.26%

\* 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

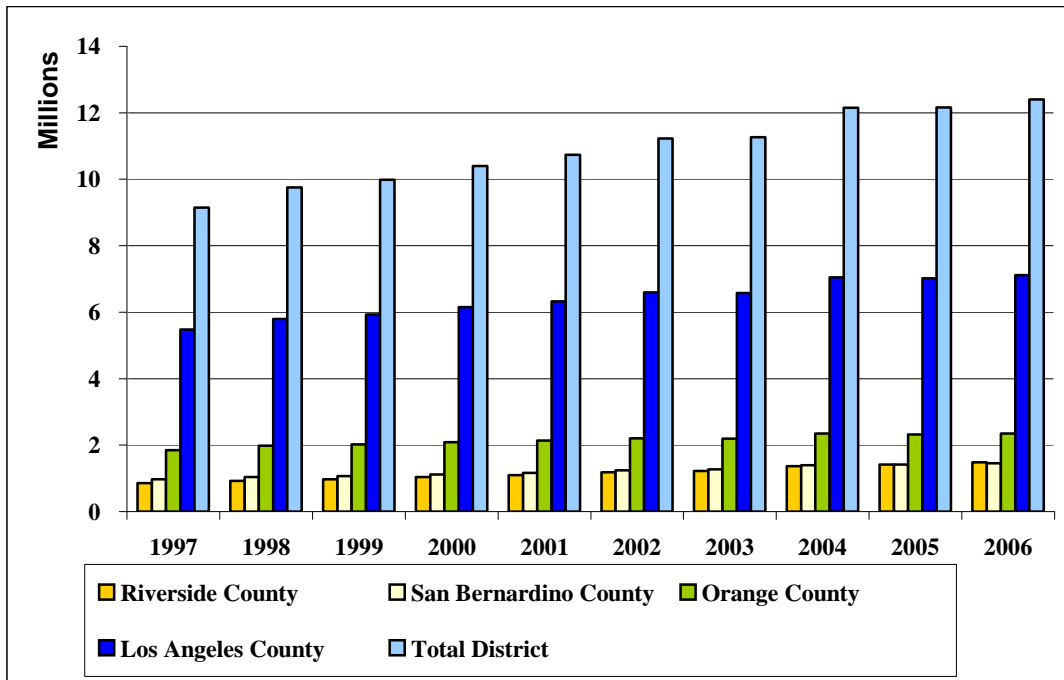


Year	San				Total	State of California
	Riverside County	Bernardino County	Orange County	Los Angeles County		
1997	589,600	658,600	1,328,200	4,117,000	6,693,400	14,780,800
1998	615,900	680,100	1,385,300	4,246,100	6,927,400	15,203,700
1999	653,600	712,600	1,422,100	4,309,400	7,097,700	15,566,900
2000	643,900	703,600	1,428,400	4,424,900	7,200,800	16,024,300
2001	672,000	724,500	1,453,400	4,483,400	7,333,300	16,220,000
2002	701,800	743,200	1,456,500	4,447,100	7,348,600	16,180,800
2003	731,500	758,300	1,484,200	4,440,800	7,414,800	16,227,000
2004	775,900	788,700	1,516,400	4,477,900	7,558,900	16,444,500
2005	816,500	816,800	1,544,800	4,581,100	7,759,200	16,782,300
2006	842,000	842,300	1,568,300	4,631,600	7,884,200	17,029,300

Source:

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

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



Year	Riverside County	San Bernardino	Orange County	Los Angeles County	Total District
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
2006	1,482,716	1,458,344	2,352,832	7,111,211	12,405,103

\* 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 2006.

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	2007
Executive Office	5	5	9	8	15	9	8	11	11	11	10
Clerk of the Boards	6	6	6	6	6	6	5	6	6	6	6
District Counsel	13	13	12	12	11	10	11	10	10	10	10
District Prosecutor	16	17	18	16	14	22	23	23	22	21	20
Finance	37	38	43	43	43	45	46	44	45	43	43
Administrative & Human	48	46	33	34	33	37	37	34	34	34	35
Information Management	42	44	43	47	46	46	48	47	45	45	48
Planning, Rule Development &											
Area Sources	87	87	131	104	93	99	116	116	110	108	109
Public Affairs	45	42	41	64	59	52	42	36	34	36	35
Science & Technology	119	115	118	121	130	142	141	136	132	136	145
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>	<u>289</u>
Total	727	716	722	725	729	771	772	752	733	743	750

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>2001</u>	<u>2002</u>	<u>2003</u>	<u>Fiscal Year</u> <u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Advance Clean Air Technology</b>							
Contracts awarded	158	287	411	211	263	180	304
Total Funding awarded	\$ 33,713,906	\$ 96,287,361	\$ 74,782,923	\$ 36,644,126	\$ 54,723,323	\$ 79,893,504	\$ 133,603,750
<b>Ensure Compliance with Clean Air Rules</b>							
Inspections	42,386	45,440	50,868	48,898	45,702	35,161	35,039
Notices of Violations	2,666	2,922	3,558	2,408	2,412	1,759	1,407
Hearing Board Orders for Abatement	n/a	47	74	58	81	61	49
Hearing Board Appeals	n/a	21	12	18	23	12	12
<b>Customer Service</b>							
Public Information Requests	9,967	5,615	7,257	5,555	5,477	4,956	4,651
Community/Public Meetings attended	112	72	84	53	92	118	182
Small Business Assistance Contacts	n/a	n/a	1,826	3,979	3,641	1,812	2,289
<b>Develop Programs to Achieve Clean Air</b>							
Transportation Plans processed	1,460	1,360	1,323	1,316	1,402	1,426	1,502
Emission Inventory Updates	272	642	289	126	359	229	284
<b>Develop Rules to Achieve Clean Air</b>							
Rules Developed	61	32	29	38	59	35	24
<b>Monitoring Air Quality</b>							
Samples Analyzed by the Laboratory	16,096	22,730	24,186	26,618	34,174	37,889	14,683
Source Testing Analyses/Evaluations/Reviews	533	484	649	752	706	598	830
<b>Timely Review of Permits</b>							
Applications Processed	11,975	17,844	10,925	10,406	11,459	9,747	9,481
Applications Received	10,970	11,086	10,138	10,431	10,996	9,222	8,261
<b>Policy Support</b>							
News releases	62	38	28	41	34	48	44
Media Calls	1,250	1,300	1,350	1,300	1,400	n/a	643
Media Inquiries Completed	n/a	n/a	n/a	n/a	n/a	268	604

# South Coast Air Quality Management District

## Demographic and Miscellaneous Statistics

<b><u>Established:</u></b>	February 1, 1977
<b><u>Area Covered:</u></b>	10,743 Square Miles
<b><u>Counties Included in District:</u></b>	All of Orange County and parts of Los Angeles, Riverside, and San Bernardino Counties
<b><u>Population:</u></b>	16,607,472 (In 2006)
<b><u>Unemployment Rate:</u></b>	Los Angeles County (4.7%), Orange (3.4%), Riverside (5%), and San Bernardino (4.7%) counties (In 2006)
<b><u>Transportation:</u></b>	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
<b><u>Visitor Destinations:</u></b>	Disneyland, Knott’s Berry Farm, Magic Mountain, motion picture and television studios and the Rose Bowl
<b><u>Number of Registered Vehicles:</u></b>	12,327,755 (In 2006)
<b><u>Average Daily Miles Traveled Per Vehicle:</u></b>	29 (CY 2006 data)
<b><u>Examples of Stationary Sources of Air Pollution Regulated:</u></b>	Oil Refineries, power plants, paint spray booths, incinerators, manufacturing facilities, dry cleaners, and service stations
<b><u>Number of Sources:</u></b>	Over 28,500 operating locations with approximately 77,000 permits.
<b><u>Number of Air Monitoring Stations:</u></b>	36
<b><u>SCAQMD Full-time Authorized Positions:</u></b>	835
<b><u>Adopted FY 2007-08 Budget:</u></b>	\$125,528,321
<b><u>Key Federal, State, and Local Air Agencies:</u></b>	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.
- **2006** AQMD approves \$36M to clean up port pollution
- **2007** The Southland experiences one of the cleanest smog seasons on record



**South Coast  
Air Quality Management District**

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