

South Coast Air Quality Management District

Diamond Bar, California



Cleaning the air that we breathe...

Comprehensive Annual Financial Report

Year Ended June 30, 2004





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, 2004

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Comprehensive Annual Financial Report
Year Ended June 30, 2004

Table of Contents

	PAGE
INTRODUCTORY SECTION	
Governing Board	i
Letter of Transmittal.....	ii
Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting	x
Organizational Chart	xi
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	20
Statement of Activities	21
Fund Financial Statements:	
Government Funds:	
Balance Sheet	22
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets	23
Statement of Revenues, Expenditures, and Changes in Fund Balances	24
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities	25
Proprietary Funds:	
Statement of Fund Net Assets	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	27
Statement of Cash Flows.....	28
Fiduciary Funds:	
Statement of Fiduciary Net Assets.....	29
Statement of Changes in Fiduciary Net Assets	30
Notes to the Basic Financial Statements	31

Table of Contents

	PAGE
Required Supplementary Information:	
General Fund – Budgetary Comparison Schedule	53
Notes to Schedule of General Fund Budgeted and Actual Expenditures – Budgetary Basis.....	54
Other Supplementary Information:	
Non-major Governmental Funds:	56
Combining Balance Sheet	60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	64
Agency Funds:	
Combining Statement of Fiduciary Net Assets	68
Combining Statement of Changes in Assets and Liabilities	69
 STATISTICAL SECTION:	
General Fund Expenditures by Major Object (Budgetary Basis) – Last Ten Fiscal Years.....	70
General Fund Expenditures by Major Object (GAAP Basis) – Last Ten Fiscal Years	71
General Fund Revenues by Major Source – Last Ten Fiscal Years	72
General Fund Revenues by Fee Source – FY 2003-04	73
Emission Fee Revenues – Last Ten Fiscal Years	74
Key Air Quality and Demographic Information Regarding the Region Included in the South Coast Air Quality Management District	75
South Coast Air Basin Smog Trend – Last Ten Calendar Years	76
Four-County Air Population – Last Ten Calendar Years	77
Los Angeles, Orange, Riverside, San Bernardino Counties, and State of California Civilian Employment – Last Ten Calendar Years	78
Paid Vehicle Registrations (Automobiles and Trucks) for Four County Area – Last Ten Calendar Years	79
Demographic and Miscellaneous Statistics.....	80

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

GOVERNING BOARD

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

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

MICHAEL D. ANTONOVICH
County of Los Angeles Representative

JAN PERRY
County of Los Angeles
Cities Representative
Western Region

JANE CARNEY
Senate Rules Committee Appointee

BILL POSTMUS
County of San Bernardino Representative

WILLIAM S. CRAYCRAFT
County of Orange
Cities Representative

JAMES W. SILVA
County of Orange Representative

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

CYNTHIA VERDUGO-PERALTA
Governor's Appointee

RONALD O. LOVERIDGE
County of Riverside
Cities Representative

DENNIS YATES
County of San Bernardino
Cities Representative

BARRY R. WALLERSTEIN, D.Env.
Executive Officer



South Coast Air Quality Management District

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(909) 396-2000 • www.aqmd.gov

October 22, 2004

Governing Board
South Coast Air Quality Management District

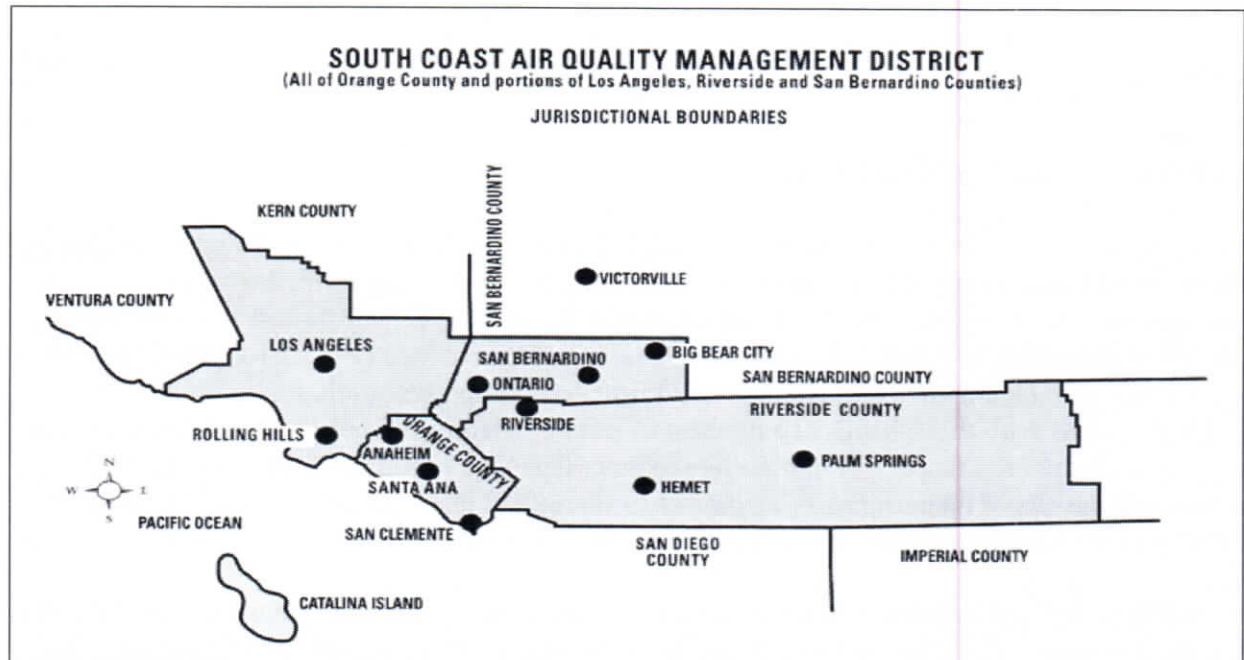
This is the third Comprehensive Annual Financial Report (CAFR) of the South Coast Air Quality Management District (AQMD) using the reporting requirements as prescribed by the Governmental Accounting Standards Board (GASB) Statement 34. This report is for the fiscal year ended June 30, 2004 and was prepared by the AQMD's Finance Office. Responsibility for the accuracy of the data, the completeness and fairness of the presentation, including all disclosures, rests with the AQMD. To the best of our knowledge and belief, the enclosed data is accurate in all material respects, reported in a manner designed to present fairly the financial position and results of operations of the various funds and all disclosures necessary to enable the reader to gain an understanding of the AQMD's financial activities.

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

ABOUT THE SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

The South Coast Air Quality Management District began operation on February 1, 1977 as a regional governmental agency established by the California Legislature pursuant to the Lewis Air Quality Management Act. The AQMD encompasses all of Orange County and parts of Los Angeles, San Bernardino and Riverside Counties, representing over 15 million residents. It succeeded the Southern California Air Pollution Control District and its predecessor four county air pollution control districts, of which the Los Angeles County Air Pollution Control District was the oldest in the nation, having been formed in 1947. The AQMD Governing Board is composed of 12 members, including four members appointed by the Boards of Supervisors of the four counties in AQMD's jurisdiction, five members appointed by cities in the AQMD's jurisdiction and three members appointed by the Governor, the Speaker of the State Assembly and the Rules Committee of the State Senate, respectively. The members appointed by the

various Boards of Supervisors and cities consist of one member of the Board of Supervisors of Los Angeles, Orange, Riverside, and San Bernardino Counties, respectively, and a mayor or member of the city council of a city within Orange, Riverside and San Bernardino Counties. Los Angeles County cities have two representatives, one each from the western and eastern portions of the county.



The AQMD has the most serious air quality problem in the country. A combination of poor atmospheric ventilation, a capping temperature inversion, bordering mountains and sunny days act to enhance smog formation and effectively trap pollutants in the Basin. The AQMD is responsible for monitoring air pollution within the Basin and for developing and administering programs to reduce air pollution levels below the health-based standards established by the state and federal governments. In 2003, the federal 1 hour air quality standard for ozone was exceeded on 68 days and the annual average fine particulate matter (≤ 10 microns) (PM_{10}) federal standard was exceeded in Riverside County. The new federal 8 hour air quality standard for ozone and the new $PM_{2.5}$ standards were exceeded by a larger margin.

Despite these high levels, the air quality in the South Coast Air Basin has improved dramatically since the late 1970s. The mean number of days in the Basin exceeding the federal standard over the three-year averaging period of 2001-2003 decreased by 74% for ozone and by 99.7% for carbon monoxide from the 1976-1978 period. The average number of days in the Basin exceeding the federal PM_{10} standard, for which sampling was initiated in late 1984, decreased by 86% between the 1985-1987 and 2001-2003 periods. There have been no days on which the federal nitrogen dioxide standard has been exceeded since 1991 and the more stringent state standard was not exceeded in 2001. Lower smog levels occurred in 2004. While economic and meteorological factors have contributed to air quality levels, most of the air quality improvements can be attributed to control strategies implemented by the AQMD and the state. The AQMD's regulatory program, in conjunction with state and federal programs, is expected to

decrease pollutant levels to meet the federal air quality standards by the year 2010, in spite of population growth in the Basin.

REPORTING ENTITY

Government Accounting Standards Board Statement No. 14 requires that certain separate but related component units be included with the AQMD for reporting purposes. This report includes the South Coast Air Quality Management District Building Corporation (Corporation) as a discretely presented component unit. This is presented in a separate column in the basic financial statements to distinguish the financial position and operations of the AQMD from its component unit. The AQMD may impose its will on the component unit, including the ability to appoint, hire, reassign or dismiss management. There are also financial benefit/burden relationships between the AQMD and the Corporation.

For additional information, see Note 1 to the financial statements.

ECONOMIC CONDITIONS

The AQMD is a fee-supported agency and does not receive sales or property tax support. Approximately 68% of its funding is derived from fees paid by stationary sources that emit air pollution; 17% from auto registration fees collected by the Department of Motor Vehicles and distributed to air districts throughout the state in support of motor vehicle emission reduction programs; 10% from federal and state grants and subventions; and the remainder from general revenues such as penalties/settlements, lease revenue and interest earnings.

To meet its program commitments, despite increased workload complexity, the AQMD has successfully streamlined many of its operations, reducing the cost of its programs. Compared to the 1991-92 fiscal year, 2003-04 expenditures reflect staffing levels that are 31% (365 FTEs) below 1991-92 levels and expenditures which are \$900 thousand (<1%) above 1991-92 levels. When adjusted for inflation, this year's expenditures were 30% less than the 1991-92 period.

This year's revenues and expenditures represent both significant expenditure savings as a result of higher employee vacancy rates, deferred contract and capital equipment expenditures, and revenues which exceeded estimates due to a significant penalty settlement of \$8.25 million. While the AQMD does not recover its activity costs fully from fees, support in the form of a state subvention and federal grants, and general revenues offset much of the shortfall.

For fiscal year 2004-05, the employer contribution rates to our pension systems will continue to increase due primarily to three years of low or negative investment returns in pension system portfolios and changes to the actuarial assumptions reflecting AQMD's aging workforce. Because AQMD fee rate increases have not kept up with the increases in retirement cost, additional reductions in staffing, contract and equipment expenditure and the use of approximately \$3 million from the unreserved fund balance has been adopted for fiscal year 2004-05. Over the next three years the AQMD plans to use a portion of its unreserved fund balance to offset projected revenue shortfalls, as it reduces program costs bringing the budget into balance with revenues.

OUTLOOK FOR THE FUTURE

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

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

Control Measure to Reduce Dairy Emissions

On August 6, 2004, the AQMD adopted the nation's first regulation to reduce smog- and particulate-forming emissions from the waste generated by more than 250,000 dairy cows, primarily concentrated in the Chino area. AQMD's Rule 1127 – Emissions Reductions from Livestock Waste, requires dairies to clear manure from corrals more frequently and send the manure to an emissions-controlled compost facility, an anaerobic digester or to agricultural land where manure is approved for spreading as fertilizer. The measure will be phased in starting December 1, 2004 and apply to the more than 300 dairies in the region, which is considered to have the highest concentration of dairy cows in the nation.

Federal Waiver to Implement Fleet Rules

AQMD adopted the Fleet Rules in 2000 in a first-ever attempt to reduce emissions directly from mobile sources. Mobile sources are the major contributors to the region's air pollution, yet the agency's regulatory authority is limited by the federal Clean Air Act, which authorizes only EPA to adopt vehicle-emission standards and preempts location regulation. The Clean Air Act, however, authorizes the State of California to apply to EPA for a waiver from the preemption.

The Fleet Rules were challenged in a lawsuit by the oil and automobile industries. The AQMD prevailed in the trial court and before the 9th Circuit Court of Appeals, but these rulings were overturned by the U.S. Supreme Court in 2004. The Supreme Court's ruling made it clear that local agencies such as the AQMD are preempted by the Clean Air Act from regulating fleets owned by private entities. However, the Supreme Court left open the possibility that the Fleet Rules could apply to public entities as internal state purchasing requirements and sent the case back to the trial court for a ruling on this issue.

In an effort to fully implement the Fleet Rules, even against private entities, the AQMD has requested that the California Air Resources Board submit the Fleet Rules to EPA for a waiver of preemption. Upon CARB's submittal to EPA, the Fleet Rules would be enforceable against all regulated parties including private fleets. CARB has taken comments from interested parties upon the AQMD's request but has not yet acted.

Expand Environmental Justice Programs

At its October 1, 2004, meeting, the Governing Board unanimously adopted several enhancements to its environmental justice program to be implemented during the coming year.

They include::

- ◆ Providing “smoke school” classes to local residents training them to identify smoke opacity and possible violations of AQMD regulations;
- ◆ Providing the public with more information through AQMD’s Web site, including emissions data for the AB 2588 toxic emissions reporting program and web-based air quality classes on industry-specific operations ranging from gas stations to spray-painting operations;
- ◆ Developing a school siting guidance document and conducting a comprehensive outreach program to educate and involve school personnel in school siting decisions that protect children from toxic air emissions;
- ◆ Developing an Environmental Justice electronic “Action Alert” to be sent to interested parties;
- ◆ Conducting community meetings to inform residents of toxic air pollution monitoring in their neighborhoods as part of the AQMD’s Multiple Air Toxics Exposure Study (MATES) III;
- ◆ Creating an Air Quality Institute for newly elected or appointed officials;
- ◆ Identifying opportunities for greater public participation in permit decisions; and
- ◆ Continuing support of the state Community Health Air Pollution Information System (CHAPIS), which gives communities the ability to locate facilities in their community and obtain information on their emissions.

Legislative Agenda

Next year, AQMD will pursue several legislative goals in Sacramento, including retrofit requirements for rail yard equipment to reduce diesel emissions; remote sensing of air pollutants from locomotives and railroad operations to identify high emitting locomotives; and a locomotive emissions impact mitigation program.

FINANCIAL CONTROLS

Annual and Independent Audit

It is the policy of the AQMD to have an annual audit performed by an independent certified public accounting firm appointed by the AQMD Board. The independent audit of the AQMD’s financial statements for fiscal year ended June 30, 2004, was conducted by Simpson and Simpson, Certified Public Accountants. The Board selects, through a competitive process, new auditors every three years. The auditor’s unqualified opinion on the basic financial statements is included in the Financial Section of this report.

As part of the AQMD’s annual audit engagement, the auditors review the AQMD’s internal control structure, as well as compliance with applicable laws and regulations. The results of the AQMD’s annual audit for fiscal year ended June 30, 2004, provided no instances of material weaknesses in connection with the internal control structure or significant violations of applicable laws and regulations.

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

Internal Accounting Controls

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

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

Budgetary Controls

The AQMD maintains budgetary controls through both signature authority and automated budget checking. The objective of these controls is to ensure compliance with the annual appropriated budget approved by the Governing Board.

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

The AQMD maintains an encumbrance accounting system of purchase orders and contracts at the fund level as a means of accomplishing budgetary control. Open encumbrances are reported as a reservation of fund balance at the end of the fiscal year. Purchase orders and contracts are reviewed to ensure that funds are available and that requests are properly authorized prior to being released or executed.

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

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

OTHER INFORMATION

Cash Management

The County of Los Angeles provides treasury management services to the AQMD. Cash resources of the individual AQMD funds are invested as part of Los Angeles County's Pooled Surplus Investment Portfolio and Special Purpose Investments. Investments are consistent with AQMD adopted investment policy, with the majority of the maturities under one year. The investment policy authorizes investments in United States treasury bills, bonds and notes, obligations issued by agencies of the United States Government, bankers acceptances, commercial paper, medium term notes, certificates of deposit, and the State's Local Agency Investment Fund. The AQMD's portfolio at June 30, 2004 is \$241,260,929.

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

Risk Management

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

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

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

Awards

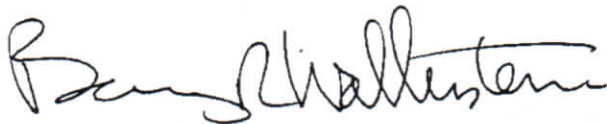
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the South Coast Air Quality Management District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The Comprehensive Annual Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgments

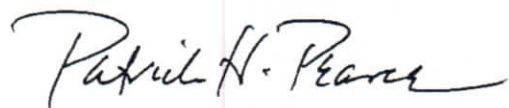
The preparation of our comprehensive annual financial report was made possible by the dedicated services of the accounting, financial analyst and management staff of the Finance Office. These members have our sincere appreciation for the contribution made in the preparation of this report.

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

Respectfully submitted,



Barry R. Wallerstein, D.Env.
Executive Officer



Patrick H. Pearce
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

South Coast Air Quality
Management District (AQMD),
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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.



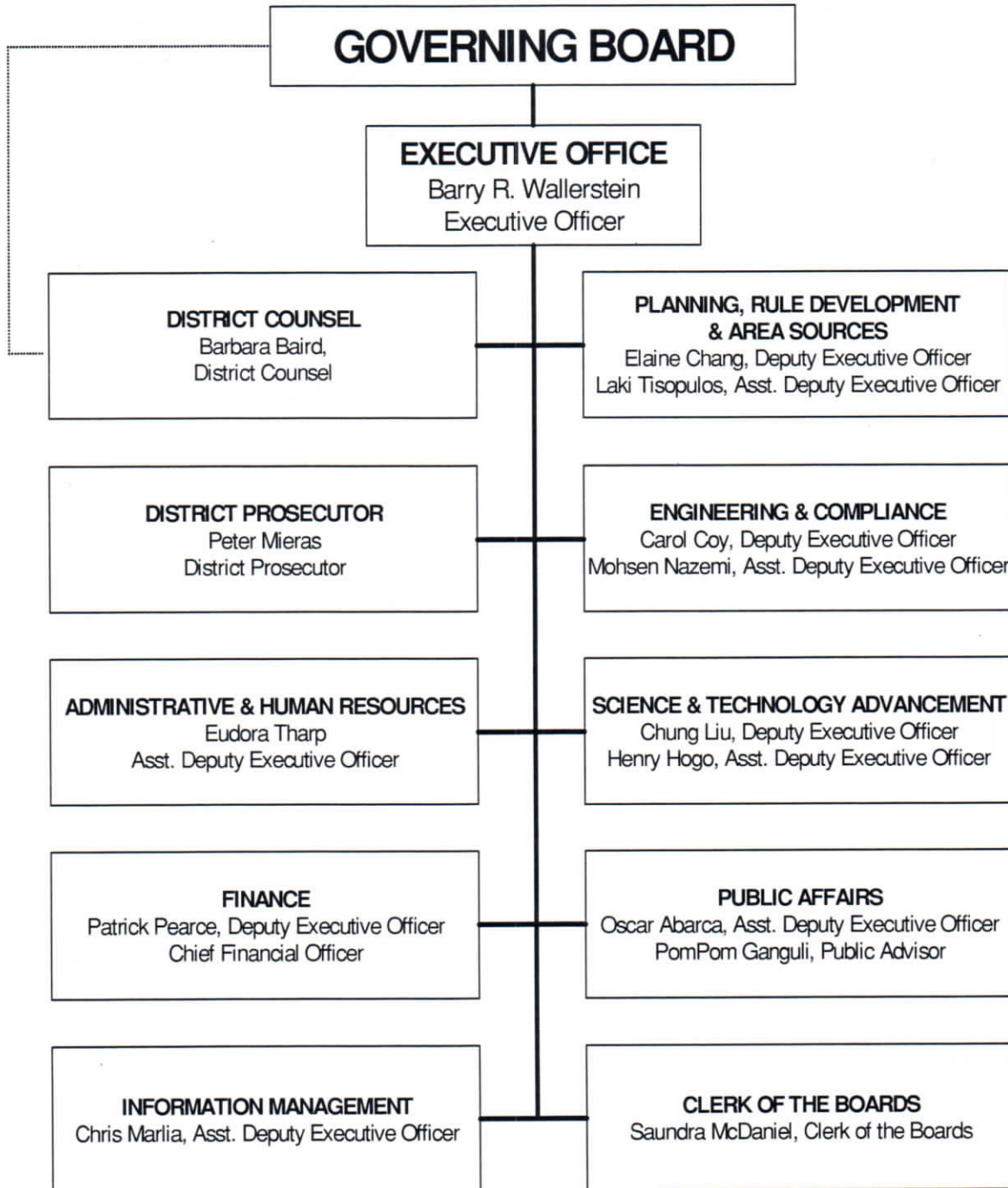
A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer".

Executive Director

South Coast Air Quality Management District





SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the South Coast Air Quality Management District (AQMD), as of and for the year ended June 30, 2004, which collectively comprise the AQMD's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the AQMD's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the AQMD, as of June 30, 2004, 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 22, 2004 on our consideration of the AQMD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



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

A handwritten signature in black ink, appearing to read 'Simpson : Simpson'. The signature is written in a cursive, flowing style.

Los Angeles, California
October 22, 2004

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Our discussion and analysis of the AQMD's financial performance provides an overview of the AQMD's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the accompanying transmittal letter and the financial statements.

A. Financial Highlights

- The AQMD assets exceeded liabilities at the close of the most recent fiscal year by \$208 million (net assets). Of this amount, \$3.5 million may be used to finance the AQMD's day-to-day operations without constraints established by legal requirements (unrestricted net assets), a decrease of 41%.
- The AQMD's total net assets decreased by \$3.5 million primarily due to reduced spending on capital assets and a \$3 million claim for attorney's fees on a lawsuit filed by the Engine Manufacturers Association against the AQMD.
- As of the close of the fiscal year, the AQMD's governmental funds reported combined ending fund balances of \$240.2 million, a decrease of \$5.6 million in comparison to the prior year.
- Of the \$240.2 million combined ending fund balances, \$41.4 million represents the fund balance of the General Fund.
- Out of the total General Fund balance of \$41.4 million at the end of the fiscal year, \$33.7 million represents the unreserved fund balance of which \$10 million represents designated uses. The remaining undesignated balance of \$23.7 million represents 22.4% of General Fund revenues.
- The AQMD's long term debt increased by \$41.8 million during the current fiscal year. The increase is the result of the issuance of Pension Obligation Bonds, Series 2004. The AQMD has elected to retire the Unfunded Actuarial Accrued Liability (UAAL) due to the San Bernardino County Employees' Retirement Association in the amount of \$46.4 million.

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 includes required and other supplementary information to the basic financial statements.

In general, the purpose of financial reporting is to provide the external parties that read financial statements with information that will help them make decisions or draw conclusions about an entity. In order to address the needs of as many parties as reasonably possible, the AQMD, in accordance with required reporting standards, presents government-wide financial statements and fund financial statements.

Government-wide Financial Statements

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

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

The Statement of Net Assets reports all assets held and liabilities owed by the AQMD using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. The difference between the two is reported as net assets, which is comparable to the total stockholders' equity presented by a commercial enterprise. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the AQMD is improving or declining.

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

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

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

Fund Financial Statements

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

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

Governmental Funds

The fund financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. These are prepared on the modified accrual basis of accounting. The government-wide statements are prepared on the full accrual basis.

In general, these financial statements prepared under the modified accrual basis have a short-term emphasis, and for the most part, measure and account for cash and other assets that can easily be converted to cash. Specifically, cash and receivables that are collectible within a very short period of time are reported on the balance sheet. The capital assets such as land and buildings are not reported.

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

The focus of the fund financial statements is narrower than that of the government-wide financial statements. Since different accounting bases are used to prepare the above statements, a reconciliation is required to facilitate the comparison between the fund statements and the government-wide statements. The reconciliation between the total fund balances can be found on page 23.

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

The AQMD maintains 23 individual special revenue funds in addition to the General Fund. Four of the special revenue funds are considered major funds. The information for the major special revenue funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Data for the other 19 non-major special revenue funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is reported in the Other Supplementary Information section of this report.

Proprietary Funds

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

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

Fiduciary Funds

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

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 31 to 52 of this report.

Required and Other Supplementary 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 following schedule lists a condensed Statement of Net Assets as of June 30, 2004 compared with the prior fiscal year:

	Net Assets (In Thousands)					
	Governmental Activities		Business-Type Activities		TOTAL	
	<u>FY 2003-04</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2002-03</u>
Current and Other Assets	\$ 263,561	\$ 279,890	\$ 71	\$ 56	\$ 263,632	\$ 279,946
Prepaid Pension Asset	46,375	-	-	-	46,375	-
Capital Assets	58,484	61,582	487	565	58,971	62,147
Total Assets	<u>368,420</u>	<u>341,472</u>	<u>558</u>	<u>621</u>	<u>368,978</u>	<u>342,093</u>
Long-term Liabilities Outstanding	137,625	95,782	-	-	137,625	95,782
Other Liabilities	23,339	34,773	9	9	23,348	34,782
Total Liabilities	<u>160,964</u>	<u>130,555</u>	<u>9</u>	<u>9</u>	<u>160,973</u>	<u>130,564</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	5,234	4,008	487	565	5,721	4,573
Restricted	198,797	201,001	-	-	198,797	201,001
Unrestricted	3,425	5,908	62	47	3,487	5,955
Total Net Assets	<u>\$ 207,456</u>	<u>\$ 210,917</u>	<u>\$ 549</u>	<u>\$ 612</u>	<u>\$ 208,005</u>	<u>\$ 211,529</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 \$208 million.

The largest portion of the AQMD's net assets is restricted. The specific revenue sources in special revenue funds are restricted to expenditures for specific purposes. Approximately 2.8% 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 is unrestricted. The increases in total assets and long-term liabilities were primarily due to the issuance of the \$47 million pension obligation bond (and related pension asset). The AQMD has elected to retire its Unfunded Actuarial Accrued Liability (UAAL) with San Bernardino County Employees' Retirement Association (SBCERA). By retiring the UAAL as of June 29, 2004, the AQMD will realize a reduction of 5.61% in its FY 04-05 retirement rates and will have some \$22.4 million in total savings over the next 20 years.

Total revenues decreased 6.6% and total expenses decreased 9.2% compared with the prior fiscal year. General revenues reflect an overall increase of \$6.8 million while program revenues decreased by \$18.6 million.

The following schedule lists a condensed Changes in Net Assets for the fiscal year ending June 30, 2004 compared with the prior fiscal year:

	Changes in Net Assets (In Thousands)				
	Governmental Activities		Business-type Activities		TOTAL
	FY 2003-04	FY 2002-03	FY 2003-04	FY 2002-03	FY 2002-03
Revenues:					
Program Revenues:					
Fees and Charges – Stationary Sources	\$ 61,933	\$ 62,836	\$ -	\$ -	\$ 61,933
Fees and Charges – Mobile Sources	10,787	10,245	-	-	10,787
Operating Grants and Subventions	9,679	7,435	-	-	9,679
Restricted Special Revenue Sources	60,731	81,194	-	-	60,731
Clean Air Store/CNG Fuel Sales	-	-	90	45	90
General Revenues:					
Grants and Subventions – Not Restricted to Specific Programs	2,962	2,966	-	-	2,962
Mobile Sources – Not Restricted to Specific Programs	6,230	5,621	-	-	6,230
Penalties and Settlements	12,232	5,795	-	-	12,232
Interest	846	1,548	1	-	847
Other Revenues	1,209	802	-	-	1,209
Total Revenues	166,609	178,442	91	45	166,700
Expenses:					
Advance Clean Air Technology	7,226	5,910	-	-	7,226
Ensure Compliance with Clean Air Rules	38,271	33,218	-	-	38,271
Customer Service	10,887	9,971	-	-	10,887
Develop Programs to Achieve Clean Air	7,858	6,179	-	-	7,858
Develop Rules to Achieve Clean Air	7,862	6,522	-	-	7,862
Monitoring Air Quality	11,811	9,974	-	-	11,811
Permit Review	21,248	18,809	-	-	21,248
Policy Support	2,509	2,547	-	-	2,509
Special Funds Activities	62,398	94,117	-	-	62,398
Other Expenses	-	-	153	82	153
Total Expenses	170,070	187,247	153	82	170,223
Increase in Net Assets Before Transfers	(3,461)	(8,805)	(62)	(37)	(3,523)
Transfers	-	(608)	-	608	-
Increase (Decrease) in Net Assets, June 30, 2004	\$ (3,461)	\$ (9,413)	\$ (62)	\$ 571	\$ (3,523)
					\$ (8,842)

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 03-04. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

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

There was 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 FY 02-03 to FY 03-04:

- **Air Quality Investment Fund** was set up to account for as one of a variety of compliance options for organizations that are required to reduce emissions from employee commute trips during the peak commute window. During FY 03-04, this investment compliance option was not as cost effective for many facilities as it had been in past fiscal years because of the significant reduction in the cost of purchasing emissions credits to achieve compliance rather than investing in the Air Quality Investment Fund. As a result of fewer facilities participating in the investment compliance option, revenue in this Fund decreased approximately \$3.7 million in FY 03-04.
- **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. In FY 02-03, at the time the grant for that year was awarded, AQMD received only 10% of the funds. The remainder of the funds, \$8.1 million, was received in FY 03-04. As a result revenue in FY 03-04 increased \$7.1 million.
- **Clean Fuels Fund** received in FY 02-03, a co-sponsorship of \$1 million from the Los Angeles Department of Water and Power to develop and demonstrate natural gas hybrid-electric transit buses. Also, revenue totaling almost \$0.6 million was received from the California Energy Commission to develop and test heavy-duty vehicles fueled by gas-to-liquid fuels and for the Next Generation Natural Gas Vehicle Program. Revenue from these sources did not recur in FY 03-04. Also, in FY 03-04, almost \$1 million was transferred to the General Fund for the Multiple

Air Toxics Exposure Study (MATES) and reimbursements to the General Fund for clean fuels-related staff work increased by \$0.6 million.

- **Lower-Emission School Bus Replacement & Retrofit Program Fund** was created to track funds used to retrofit or replace diesel school buses. In FY 03-04, AQMD received approximately \$2.2 million from CARB. These funds are available to public school districts to purchase clean-burning buses to transport school children. In addition, \$12 million was transferred from the Rule 1309.1 Priority Reserve Fund. As a result of these two actions, FY 03-04 revenue and other financing sources in the Lower-Emission School Bus Replacement & Retrofit Program Fund increased \$8.6 million.
- **RECLAIM Air Quality Investment Program (AQIP)** account within the Air Quality Investment Program Fund was prefunded with \$2 million from the AES Settlements Project Fund in April 2001. In FY 02-03, \$0.5 million was returned to the AES Settlement Projects Fund. In FY 03-04, the remaining \$1.5 million was returned to that Fund. As a result, the FY 03-04, revenue in the AES Settlement Projects Fund increased by \$1.5 million.
- **Rule 1309.1 Priority Reserve Fund** was created in response to the energy crisis, to bring additional megawatts online by July 2004. Electrical generating facilities were required to offset their increased emissions from the additional megawatts by paying a mitigation fee. These mitigation fees were recorded in this fund and were used to fund projects that reduce PM10 emissions (Particulate Matter \leq 10 microns). Many of the additional megawatts came online in FY 02-03 and mitigation fees in the amount of \$13 million were paid during that fiscal year. In FY 03-04, the remaining megawatts came online and mitigation fees of approximately \$0.4 million were paid. As a result, in FY 03-04 mitigation fees revenue in this Fund decreased by approximately \$12.7 million.
- **State Emissions Mitigation Fund** was established in July 2001 to receive up to \$30 million from CARB to fund programs to mitigate excess peaker power plant emissions during the energy crisis. In FY 01-02, AQMD received approximately \$24 million. In FY 02-03, an additional \$4.1 million was received. In FY 03-04, only \$0.4 million was received, from a different source, for a diesel particulate demonstration project. As a result, FY 03-04 revenue in this Fund decreased by approximately \$3.7 million.
- **State Backup Generator (BUG) Fund** received \$5.6 million from CARB to fund the deployment of low-emission backup diesel generators or retrofit technologies. In FY 03-04, no additional funds were received. As a result, FY 03-04 revenue in this Fund decreased by \$5.6 million.
- **Dry Cleaners Financial Incentives Grant Program Fund** was established in FY 02-03, and \$2 million was transferred from the General Fund to the new Fund. In FY 03-04, no additional transfers were made. As a result, FY 03-04 revenue and other financing sources in this Fund decreased by \$2 million.

- **Rule 1173 Mitigation Fee Special Revenue Fund** was established in FY 03-04. Mitigation fees relating to the release of Volatile Organic Compound (VOC) from an atmospheric Pressure Relief Device (PRD) are recorded in this Fund. During FY 03-04, mitigation fees totaling \$1.4 million were received.
- **Communities for a Better Environment (CBE)/Our Children's Earth (OCE) Settlement Agreement Fund** was established in FY 03-04 to fund emission reduction projects in disproportionately impacted areas. When the Fund was established, \$1 million was transferred from the Rule 1309.1 Priority Reserve Fund to this new Fund.

Business-Type Activities

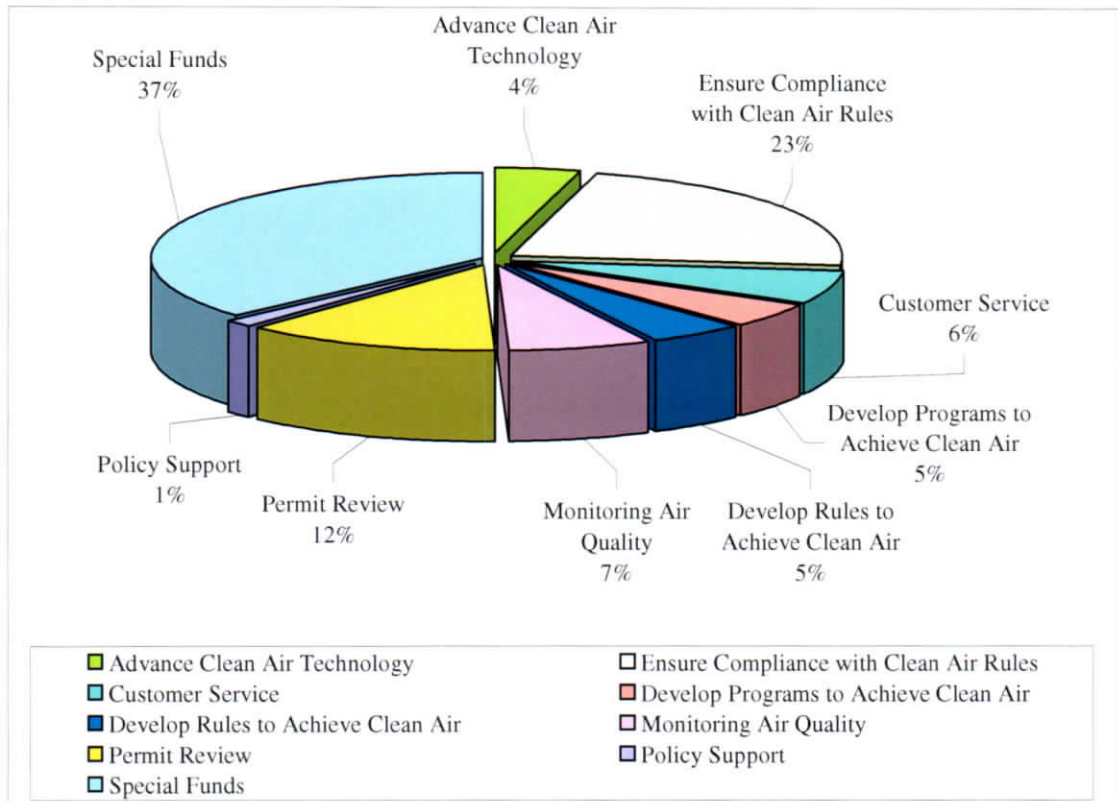
The business-type activities section reports transactions relating to the Clean Air Store and the Compressed Natural Gas (CNG) fueling station. The Clean Air Store and the CNG fueling station expenditures are reported on a cash basis and are offset by sales. The net assets of the business-type activities decreased by \$62,000 from \$612,000 to \$550,000. The decrease is primarily due to depreciation of the business-type activities capital assets.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

EXPENSES BY ACTIVITY

Governmental Activities

FY 2003-04



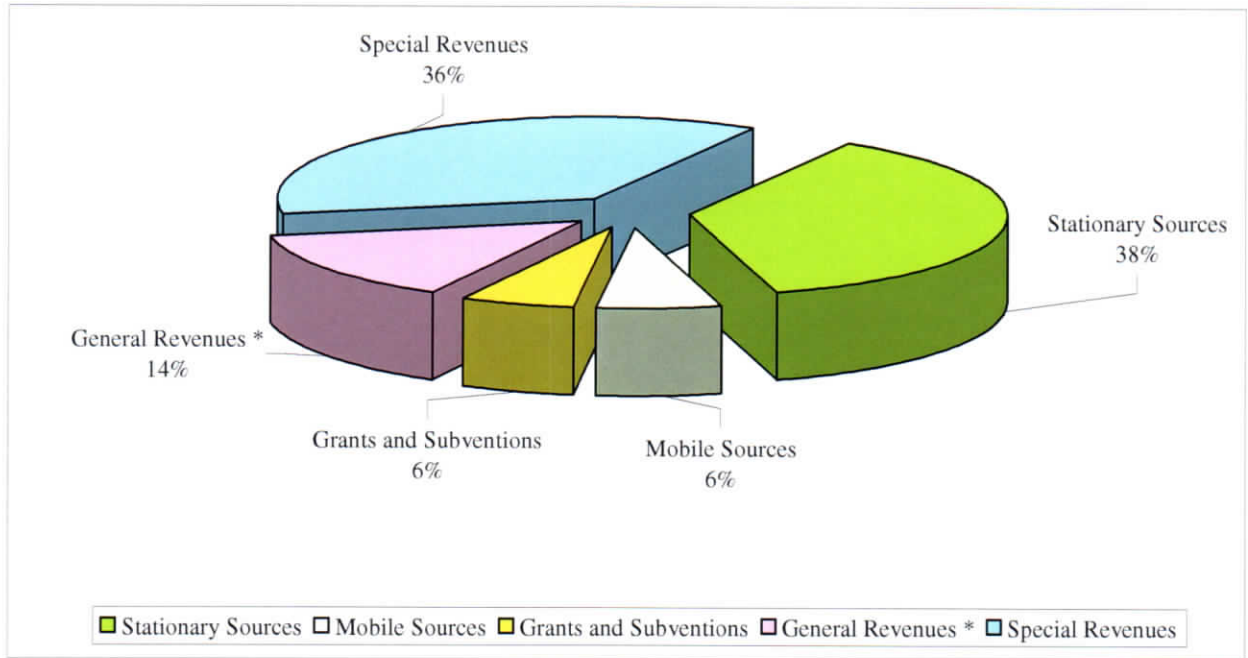
Activity	FY 03-04	FY 02-03	FY 01-02
Advance Clean Air Technology	\$7,225,970	\$5,910,075	\$4,484,278
Ensure Compliance with Clean Air Rules	38,270,688	33,217,922	32,780,500
Customer Service	10,887,187	9,971,153	9,491,294
Develop Programs to Achieve Clean Air	7,857,571	6,178,611	5,618,177
Develop Rules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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

REVENUES BY MAJOR SOURCE

Governmental Activities

FY 2003-04



Source	FY 03-04	FY 02-03	FY 01-02
Stationary Sources	\$61,932,425	\$62,835,710	\$65,737,827
Mobile Sources	10,787,342	10,245,290	10,272,434
Grants and Subventions	9,679,283	7,434,924	10,434,312
General Revenues *	23,479,027	16,732,092	16,429,959
Special Revenues	60,731,099	81,194,075	118,891,866
Total	\$166,609,176	\$178,442,091	\$221,766,398

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

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

GOVERNMENTAL ACTIVITIES

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

	<u>FY 2003-2004</u>	
	Total Cost of Program <u>Activities</u>	Net Cost of Program <u>Activities</u>
Advance Clean Air Technology	\$ 7,226	\$ (110)
Ensure Compliance with Clean Air Rules	38,271	(1,939)
Customer Service	10,887	(4,888)
Develop Programs to Achieve Clean Air	7,858	(3,319)
Develop Rules to Achieve Clean Air	7,862	(4,270)
Monitoring Air Quality	11,811	(4,049)
Permit Review	21,248	(5,537)
Policy Support	2,509	(1,160)
Special Fund Activities	62,398	(1,667)
Total	\$ 170,070	\$ (26,939)

In Fiscal Year 03-04, expenditures in each program activity and overall special fund activities exceeded revenues received. Special fund activities generate funding for long-term projects that reduce emissions in the South Coast Air Basin. Funding for special fund activities are recognized when received and projects carried out may extend over multiple fiscal years.

These program activities are:

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

quality information, resolve jurisdictional questions and implement joint programs. Implement comprehensive public information, legislative and customer service programs.

- **Develop Programs to Achieve Clean Air** – Develop a regional Air Quality Management Plan (AQMP) to achieve federal and state ambient air quality standards and to meet all other requirements of the federal and California Clean Air Acts.
- **Develop Rules to Achieve Clean Air** – Develop emission reduction regulations for sulfur dioxide, nitrogen dioxide, organic gases, particulate matter, toxics, and other pollutants to implement the regional AQMP, Tanner Air Toxics Process (AB 1807), National Emission Standards for Hazardous Air Pollutants (NESHAPS), and Prevention of Significant Deterioration (PSD) requirements.
- **Monitoring Air Quality** – Operate and maintain a network of air quality monitoring sites for ozone, nitrogen oxides, sulfur oxides, particulate matter, carbon monoxide and other pollutants to obtain data regarding public exposure to air contaminants.
- **Permit Review** – Ensure timely processing of permits for new sources based on compliance with New Source Review and other applicable local, state and federal air quality rules and regulations.
- **Policy Support** – Provide support staff to the Governing Board, Board committees, and various ad hoc committees.

D. Financial Analysis of the AQMD's Funds

Governmental Funds

As of the end of the fiscal year, the AQMD's governmental funds reported combined ending fund balances of \$240.2 million, a decrease of \$5.6 million in comparison with the prior year. Approximately 83.0% of these fund balances (\$198.8 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 \$41.4 million. The unreserved fund balance was \$33.7 million; designations were \$9.9 million or 29.0%. These designated amounts represent the AQMD's intended use of the financial resources in future periods. Its components are presented under Notes to the Basic Financial Statements on page 38. One measure of the General Fund's liquidity is the comparison of both unreserved fund balance and total fund balance to total expenditures. The unreserved fund balance (designated and undesignated combined) represents 31% of total General Fund expenditures, while total fund balance represents 38% of the total General Fund expenditures. In the General Fund, the unreserved fund balance may serve as a useful measure of the AQMD's net resources available for spending at the end of the fiscal year.

To more fully recover the cost of the AQMD programs, fee rates in FY 03-04 were increased by 3% consistent with the change in the California Consumer Price Index (CPI). In addition, an appropriation from the subvention reserve was required to offset a reduction in state funding. To mitigate a projected shortfall in emissions fees revenue, hiring staff and the purchase of capital equipment and professional services were deferred to generate expenditure savings. On a budgetary basis, General Fund expenditures exceeded revenues by \$3.2 million. The FY 03-04 adopted budget relied on approximately \$6.1 million from the undesignated fund balance to balance the budget. However, late in the fiscal year, AQMD received a significant settlement of a lawsuit with a large refinery, and ended the fiscal year with expenditures exceeding revenues by \$3.2 million.

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

- **Air Quality Improvement Fund** – The fund balance increased slightly by \$395,000 compared with prior year. The revenue received represents 40% of the motor vehicle registration fees which are distributed to cities and counties within the South Coast Air Basin.
- **Mobile Sources Air Pollution Reduction Fund** – The fund balance showed an increase compared with the prior year due to lower expenditures in fiscal year 03-04. Many of the contracts executed in this special revenue fund are multi-year and the projects are often long-term and expenditures can vary significantly from year to year.
- **Clean Fuels Program Fund** – The fund balance showed an increase compared with the prior year due to lower expenditures in FY 03-04. Many of the contracts executed in this special revenue fund are multi-year and the projects are often long-term and expenditures can vary significantly from year to year.
- **Carl Moyer Program Fund** – The fund balance increased due to increased revenues received in fiscal year 03-04 and lower expenditures were recorded compared with the prior year. Most projects in this fund are long-term in nature, which cover multiple fiscal years. As a result, the expenditures can vary significantly from year to year.

Proprietary Funds

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

E. General Fund Budgetary Highlights

The FY 03-04 adopted budget compared to the amended budget reflects an increase in appropriations of \$12.5 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

undesignated fund balance for program needs that were unknown at the time the budget was developed.

Additional grant awards were appropriated in FY 03-04 from the following:

- **EPA** – \$3.2 million for the following projects: Photochemical Assessment Monitoring Stations (PAMS), Port of Long Beach, Boiler Tune-Up and PM2.5 Monitoring.
- **California Department of Transportation** – \$2 million to implement the federal Green Airport Initiative Demonstration at Los Angeles International Airport.
- **Department of Defense** – \$900,000 for the adaptation of urban air monitoring instruments to demonstrate feasibility to measure low level pollutant concentrations.
- **Lease Revenue** – \$35,000 was received from the operator of the AQMD on-site child care center. These funds were reserved for child care center renovations.

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

- **Clean Fuels Fund** – \$1.5 million was allocated for various Clean Fuels Program activities such as the purchase of advanced technology vehicles for the Alternative Fuel Vehicle Loan Program, the development of alternative vehicle and fuel infrastructure projects, administrative support, technical assistance, expert consultations, public outreach, technical conference sponsorship, and Technology Advancement website upgrades.
- **Air Toxics "Hot Spots" Fund** – \$125,000 was transferred for continuation of privatization of portions of the Annual Emissions Reporting (AER) Program.
- **Air Quality Investment Fund** – \$150,000 for outreach and administrative expenses of the Mow Down Air Pollution Program 2004, which exchanges gas-powered lawn mowers with electric mowers.
- **Designation for Litigation and Enforcement** – \$588,000 was allocated for outside counsel to represent and advise both AQMD and AQMD Hearing Board on legal matters related to environmental law.

The remaining \$4 million increase can be attributed to transfers from the undesignated fund balance for outside counsel to represent and advise both the AQMD and the AQMD Hearing Board on legal matters related to environmental law and for a study on the health effects of emissions from recent southern California wild fires.

For FY 03-04, a comparison of actual revenues and expenditures to the final budget identified excess revenues of \$1.8 million or 1.7% and expenditures savings of \$5.1 million or 4.6%.

The reasons that actual revenue exceeded the final budget are the following: At the end of the fiscal year, the AQMD received a settlement from a refinery in the amount of \$8.25 million; emissions fees collected were below budgeted levels as result of a greater than expected decline in payments on reported emissions; revenue from grants/awards received during the fiscal year were not realized due to various projects being deferred; and interest earnings were budgeted at a rate of return of 2.4% but actually yielded a return of 1.3%.

The expenditure savings can be attributed to the continued economic constraints facing the AQMD which led to voluntary expenditure reductions. Only critical vacant positions were filled and fewer contracts were executed, resulting in reduced public notice and advertising costs. Workers' compensation claims were under budgeted levels, which were based on prior year experience. In addition, the expenditures appropriated for the grant projects that were deferred until FY 04-05 were not utilized.

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 \$58.5 million (net of accumulated depreciation of \$46.6 million) as of June 30, 2004. This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, computers, office furniture, and AQMD fleet vehicles.

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

Additional information on the capital assets can be found in the Notes to Financial Statements on page 43.

Long-Term Debt

At the end of the current fiscal year, the AQMD had a total long-term debt outstanding of \$137.6 million, including the current portion of \$7.1 million. Of this amount, \$53.2 million represents the Installment Sale Revenue Bonds issued by the AQMD Building Corporation (Corporation) and the AQMD is required to make debt service payments. This is in accordance with the Installment Purchase Agreement between the Corporation and the AQMD. Additional information on the Installment Sale Revenue Bonds can be found in the Notes to Basic Financial Statements. The amount of \$72.3 million represents the Pension Obligation Bonds. The 1995 series (outstanding balance of \$25.2 million) and \$47.1 million issued in June 2004 retired the Unfunded Actuarial Accrued Liability due to San Bernardino County Employees Retirement Association. Additional information on Pension Obligation Bonds can be found in the Notes to Basic Financial Statements. Other long-term debt includes general claims and workers' compensation claims payable of \$1 million and compensated absences of \$11.1 million.

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

The FY 04-05 expenditure budget decreases by 10.3% in comparison to the FY 03-04 amended budget. A significant portion of this decrease is the result of staffing cuts and expenditure reductions tied to one-time projects or litigation expenses. In response to substantial increases in retirement rates as the result of market losses to the retirement system, court decisions which have increased benefits to employees and retirees, and an estimated 8% reduction in emission fee revenues reflecting lower emissions as a result of additional emission controls placed on the Basin's largest emitters, the AQMD's revenues have not kept pace with program costs. To mitigate the substantial increase in retirement rates and the reduced emissions fees revenues, 44 vacant positions were unfunded and further reductions in expenditures for services and supplies were made.

Moreover, since FY 1991-92, the AQMD has reduced staffing and program costs despite increased program requirements. The FY 04-05 expenditures budget is \$102.3 million and includes funding for 754 authorized positions. Compared to FY 1991-92, this reflects 35% less staffing and a 9.5% reduction in budgeted expenditures. Adjusting today's dollar for inflation, the FY 04-05 budget is 38.5% less than the FY 1991-92 adopted budget. Despite these reductions and the success of several streamlining measures adopted by the Board, estimated revenues do not keep pace with AQMD's increasing retirement costs and program requirements. Therefore, the FY 04-05 Budget adopted an across-the-board fee increase of 3.0% along with an appropriation from the undesignated fund balance.

While the budget for FY 04-05 represents a decrease from the FY 03-04 amended budget, it represents an approximate 0.7% increase over last year's originally adopted budget. This increase reflects a portion of the cost to cover increases associated with our labor agreements, and increased retirement contributions. Estimated revenues for FY 04-05 are \$99.2 million, which with the addition of \$3 million from undesignated fund balance brings funding in balance with expenditures. As in past years, the AQMD will continue its efforts to make progress toward attaining the federal and state clean air mandates in the most cost-effective manner possible.

H. Requests for Information

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

BASIC FINANCIAL STATEMENTS

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS
June 30, 2004

<u>Assets</u>	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	SCAQMD Building Corporation
Current assets:				
Cash and cash equivalents	\$ 230,691,198	\$ 67,531	\$ 230,758,729	\$ 1,040,294
Investments	9,000,000	-	9,000,000	-
Interest receivable	776,880	-	776,880	671,326
Due from other governmental agencies	11,907,726	-	11,907,726	-
Accounts receivable, net	10,479,735	-	10,479,735	-
Inventories	50,619	3,418	54,037	-
Other assets	655,000	-	655,000	502,238
Total current assets	263,561,158	70,949	263,632,107	2,213,858
Noncurrent assets:				
Prepaid pension asset	46,375,000	-	46,375,000	-
Capital assets:				
Land	8,829,792	-	8,829,792	-
Depreciable building and improvements and equipment, net	49,654,327	487,546	50,141,873	-
Total capital assets	58,484,119	487,546	58,971,665	-
Total noncurrent assets	104,859,119	487,546	105,346,665	-
Total assets and other debits	368,420,277	558,495	368,978,772	2,213,858
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	8,871,224	8,587	8,879,811	98,915
Interest payable	671,326	-	671,326	671,326
Salaries and benefits payable	3,007,177	-	3,007,177	-
Unearned revenue	10,788,967	-	10,788,967	-
Long term debt - due within one year	7,096,520	-	7,096,520	-
Total current liabilities	30,435,214	8,587	30,443,801	770,241
Noncurrent liabilities:				
Long term debt - due in more than one year	130,529,006	-	130,529,006	-
Total noncurrent liabilities	130,529,006	-	130,529,006	-
Total liabilities	160,964,220	8,587	160,972,807	770,241
Net assets				
Investment in capital assets, net of related debt	5,234,119	487,546	5,721,665	-
Restricted for special projects/programs	198,796,776	-	198,796,776	-
Unrestricted	3,425,162	62,362	3,487,524	1,443,617
Total net assets	\$ 207,456,057	\$ 549,908	\$ 208,005,965	\$ 1,443,617

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004**

Functions/Programs Primary government:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Stationary Sources	Mobile Sources	Operating Grants and Subventions	Restricted Special Revenues	Governmental Activities	Business-Type Activities	Total	SCAQMD Building Corporation
Governmental activities:									
Advance clean air technology	\$ 7,225,970	\$ 554,238	\$ 4,457,864	\$ 2,103,615	\$ -	\$ (110,253)	\$ -	\$ (110,253)	\$ -
Ensure compliance with clean air rules	38,270,688	32,039,191	960,995	3,331,943	-	(1,938,559)	-	(1,938,559)	-
Customer service	10,887,187	3,693,084	1,974,195	331,564	-	(4,888,344)	-	(4,888,344)	-
Develop programs to achieve clean air	7,857,571	2,507,335	1,754,372	277,035	-	(3,318,829)	-	(3,318,829)	-
Develop rules to achieve clean air	7,862,276	3,226,054	153,364	212,697	-	(4,270,161)	-	(4,270,161)	-
Monitoring air quality	11,810,641	3,463,729	1,013,949	3,284,074	-	(4,048,889)	-	(4,048,889)	-
Permit review	21,247,912	15,572,315	-	138,355	-	(5,537,242)	-	(5,537,242)	-
Policy support	2,509,232	876,479	472,603	-	-	(1,160,150)	-	(1,160,150)	-
Special funds activities	62,398,205	-	-	-	60,731,099	(1,667,106)	-	(1,667,106)	-
Total governmental activities	170,069,682	61,932,425	10,787,342	9,679,283	60,731,099	(26,939,533)	-	(26,939,533)	-
Business-type activities:									
Clean air store	936	-	-	-	-	-	(936)	(936)	-
CNG fueling station	152,547	-	-	-	-	-	(152,547)	(152,547)	-
Total business-type activities	153,483	-	-	-	-	-	(153,483)	(153,483)	-
Total primary government	\$ 170,223,165	\$ 61,932,425	\$ 10,787,342	\$ 9,679,283	\$ 60,731,099	\$ (26,939,533)	\$ -	\$ (27,093,016)	\$ -
Component Unit:									
SCAQMD Building Corporation	\$ 1,732,008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(1,732,008)
Total component unit	\$ 1,732,008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(1,732,008)
General revenues:									
Grants and subventions - restricted to non-specific stationary source programs						2,962,415	-	2,962,415	-
Mobile sources - restricted to non-specific mobile source programs						6,229,842	-	6,229,842	-
Interest						845,849	1,112	846,961	5,461
Lease revenue						372,707	-	372,707	-
Penalties/settlement						12,232,181	-	12,232,181	-
Subscriptions						36,301	-	36,301	-
Other						799,732	-	799,732	1,511,991
Clean Air Store/CNG Fuel Sales						-	89,947	89,947	-
Total general revenues						23,479,027	91,059	23,570,086	1,517,452
Change in net assets						(3,460,506)	(62,424)	(3,522,930)	(214,556)
Net assets - July 1, 2003						210,916,563	612,332	211,528,895	1,658,173
Net assets - June 30, 2004						\$ 207,456,057	\$ 549,908	\$ 208,005,965	\$ 1,443,617

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

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2004**

<u>Assets</u>							Total
	General	Air Quality Improvement Fund	Mobile Sources Air Pollution Reduction Fund	Clean Fuels Program Fund	Carl Moyer Program Fund	Other Governmental Funds	
Cash and cash equivalents	\$ 44,689,332	\$ 1,671,138	\$ 36,234,189	\$ 41,189,199	\$ 31,853,985	\$ 75,053,355	\$ 230,691,198
Investments	3,000,000	-	3,000,000	3,000,000	-	-	9,000,000
Interest receivable	170,212	8,166	130,092	146,278	84,976	237,156	776,880
Due from other governmental agencies	4,016,989	3,307,697	2,480,773	2,102,267	-	-	11,907,726
Due from other funds	215	-	-	-	-	-	215
Accounts receivable, net	8,702,655	-	-	240,555	-	1,536,525	10,479,735
Inventories	50,619	-	-	-	-	-	50,619
Total assets and other debits	\$ 60,630,022	\$ 4,987,001	\$ 41,845,054	\$ 46,678,299	\$ 31,938,961	\$ 76,827,036	\$ 262,906,373
<u>Liabilities and fund balances</u>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 5,391,379	\$ -	\$ 1,061,415	\$ 275,268	\$ 26,465	\$ 1,719,178	\$ 8,473,705
Salaries and benefits payable	3,007,177	-	-	-	-	-	3,007,177
Due to other funds	485	-	-	-	-	391,884	392,369
Unearned revenue	10,788,967	-	-	-	-	5,365	10,794,332
Total liabilities	19,188,008	-	1,061,415	275,268	26,465	2,116,427	22,667,583
Fund balances:							
Reserved for encumbrances	7,682,304	-	18,838,448	10,785,740	13,559,659	27,311,687	78,177,838
Reserved for inventories	50,619	-	-	-	-	-	50,619
Unreserved:							
General fund	33,709,091	-	-	-	-	-	33,709,091
Special revenue funds	-	4,987,001	21,945,191	35,617,291	18,352,837	47,398,922	128,301,242
Total fund balances	41,442,014	4,987,001	40,783,639	46,403,031	31,912,496	74,710,609	240,238,790
Total liabilities and fund balances	\$ 60,630,022	\$ 4,987,001	\$ 41,845,054	\$ 46,678,299	\$ 31,938,961	\$ 76,827,036	\$ 262,906,373

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2004**

Fund Balances – Total Governmental Funds	\$240,238,790
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.	47,030,000
Capital assets net of accumulated depreciation have not been included as financial resources in the governmental funds. These capital assets are reported in the Statement of Net Assets as capital assets of AQMD as a whole.	58,484,119
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.	(671,326)
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	(125,511,896)
General liability	(77,160)
Workers' compensation	(925,052)
Compensated absences	<u>(11,111,418)</u>
Net Assets of Governmental Activities	<u>\$207,456,057</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, 2004

	General Fund	Air Quality Improvement Fund	Mobile Sources Air Pollution Reduction Fund	Clean Fuels Program Fund	Carl Moyer Program Fund	Other Governmental Funds	Total
Revenues:							
Emission fees	\$ 19,497,850	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,497,850
Annual operating fees	28,487,923	-	-	-	-	-	28,487,923
Permit fees	11,202,036	-	-	-	-	-	11,202,036
Clean fuels/mobile/stationary sources	16,740,121	18,451,620	13,838,715	9,147,015	-	-	58,177,471
Emission reduction fees	-	-	-	-	-	375,000	375,000
Air Toxics	1,556,840	-	-	-	-	(127,182)	1,429,658
Transportation	748,006	-	-	-	-	-	748,006
State subvention	4,021,970	-	-	-	-	-	4,021,970
Federal grant	8,443,715	-	-	-	-	-	8,443,715
State grant	176,013	-	-	50,000	8,133,479	2,066,250	10,425,742
Interest	845,849	39,436	616,723	675,191	385,056	1,115,989	3,678,244
Lease revenue	372,707	-	-	-	-	-	372,707
Source test/analysis fees	342,909	-	-	-	-	-	342,909
Hearing Board	373,924	-	-	-	-	-	373,924
Penalties/settlements	12,232,181	-	-	-	-	-	12,232,181
Subscriptions	36,301	-	-	-	-	-	36,301
Reclaim & executive order mitigation	-	-	-	-	-	601,086	601,086
Other revenues	799,732	-	-	101,076	-	5,261,645	6,162,453
Total revenues	<u>105,878,077</u>	<u>18,491,056</u>	<u>14,455,438</u>	<u>9,973,282</u>	<u>8,518,535</u>	<u>9,292,788</u>	<u>166,609,176</u>
Expenditures:							
Current:							
Salaries and employee benefits	74,539,634	-	-	-	-	-	74,539,634
Insurance	1,110,014	-	-	-	-	-	1,110,014
Rent	709,158	-	-	-	-	-	709,158
Supplies	2,045,772	-	-	-	-	-	2,045,772
Contract and special services	13,091,274	18,095,606	8,921,049	3,831,272	5,757,033	23,831,017	73,527,251
Maintenance	1,011,913	-	-	-	-	-	1,011,913
Travel and auto	445,745	-	-	-	-	-	445,745
Utilities	1,463,778	-	-	-	-	-	1,463,778
Communications	553,238	-	-	-	-	-	553,238
Uncollectible accounts	157,911	-	-	-	-	216,801	374,712
Other expenditures	3,656,218	-	391,542	3,111	-	1,242,747	5,293,618
Capital outlay	1,490,545	-	-	537,000	-	108,027	2,135,572
Debt service:							
Principal	6,040,000	-	-	-	-	-	6,040,000
Interest	2,914,873	-	-	-	-	-	2,914,873
Total expenditures	<u>109,230,073</u>	<u>18,095,606</u>	<u>9,312,591</u>	<u>4,371,383</u>	<u>5,757,033</u>	<u>25,398,592</u>	<u>172,165,278</u>
Excess (deficiency) of revenues over (under) Expenditures before transfers	<u>(3,351,996)</u>	<u>395,450</u>	<u>5,142,847</u>	<u>5,601,899</u>	<u>2,761,502</u>	<u>(16,105,804)</u>	<u>(5,556,102)</u>
Other financing sources (uses):							
Proceeds of pension obligation bonds	47,030,000	-	-	-	-	-	47,030,000
Transfers in	-	-	-	-	-	14,700,000	14,700,000
Transfers out	-	-	-	(200,000)	-	(14,500,000)	(14,700,000)
Total other financing sources (uses)	<u>47,030,000</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>	<u>200,000</u>	<u>47,030,000</u>
Special item:							
Payment to retirement system and related costs	(47,030,000)	-	-	-	-	-	(47,030,000)
Total special item	<u>(47,030,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(47,030,000)</u>
Net change in fund balance	<u>(3,351,996)</u>	<u>395,450</u>	<u>5,142,847</u>	<u>5,401,899</u>	<u>2,761,502</u>	<u>(15,905,804)</u>	<u>(5,556,102)</u>
Fund balances, July 1, 2003	<u>44,794,010</u>	<u>4,591,551</u>	<u>35,640,792</u>	<u>41,001,132</u>	<u>29,150,994</u>	<u>90,616,413</u>	<u>245,794,892</u>
Fund balances, June 30, 2004	<u>\$ 41,442,014</u>	<u>\$ 4,987,001</u>	<u>\$ 40,783,639</u>	<u>\$ 46,403,031</u>	<u>\$ 31,912,496</u>	<u>\$ 74,710,609</u>	<u>\$ 240,238,790</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$(5,556,102)

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. 2,135,572

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. (4,555,574)

Repayment of bond principal is an expenditure in the governmental funds. For AQMD as a whole, principal payments reduce the liabilities in the Government-wide Statement of Net Assets and do not result in an expense in the Statement of Activities and Changes in Net Assets. 6,040,000

Accrued interest expense on long-term debt is reported in the Government-wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, interest expense is not reported as an expenditure in governmental funds. (671,326)

Long-term compensated absences and general liability/workers' compensation claims are reported in the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, they are not reported as expenditures in governmental funds:

Compensated absences	(527,605)
General liability/workers compensation claims	<u>(325,471)</u>

Changes in Net Assets of Governmental Activities: \$(3,460,506)

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Clean Air Store Fund</u>	<u>CNG Fueling Station Fund</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 13,401	\$ 54,130	\$ 67,531
Accounts receivable, net	-	-	-
Inventories	3,418	-	3,418
Total current assets	<u>16,819</u>	<u>54,130</u>	<u>70,949</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	-	487,546	487,546
Total noncurrent assets	<u>-</u>	<u>487,546</u>	<u>487,546</u>
Total assets	<u>16,819</u>	<u>541,676</u>	<u>558,495</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	96	8,491	8,587
Total liabilities	<u>96</u>	<u>8,491</u>	<u>8,587</u>
<u>Net assets</u>			
Invested in capital assets, net of related debt	-	487,546	487,546
Unrestricted	16,723	45,639	62,362
Total net assets	<u>\$ 16,723</u>	<u>\$ 533,185</u>	<u>\$ 549,908</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, 2004**

	Business-type Activities - Enterprise Funds		
	Clean Air Store Fund	CNG Fueling Station Fund	Total
Revenue:			
Interest	\$ -	\$ 1,112	\$ 1,112
Merchandise sales	1,585	88,362	89,947
Total operating revenue	<u>1,585</u>	<u>89,474</u>	<u>91,059</u>
Expenses:			
Depreciation	-	77,467	77,467
Other expenses	936	75,080	76,016
Total operating expenses	<u>936</u>	<u>152,547</u>	<u>153,483</u>
Operating income (loss)	649	(63,073)	(62,424)
Total net assets, July 1, 2003	<u>16,074</u>	<u>596,258</u>	<u>612,332</u>
Total net assets, June 30, 2004	<u>\$ 16,723</u>	<u>\$ 533,185</u>	<u>\$ 549,908</u>

See accompanying notes to the basic financial statements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Clean Air Store	CNG Fueling	Total
	Fund	Station Fund	
<u>Cash flows from operating activities:</u>			
Cash received from merchandise sales	\$ 1,719	\$ 97,973	\$ 99,692
Cash payment for goods and services	(79)	(76,655)	(76,734)
Net cash provided by operating activities	1,640	21,318	22,958
Beginning cash balance, July 1, 2003	11,761	32,812	44,573
Ending cash balance, June 30, 2004	\$ 13,401	\$ 54,130	\$ 67,531
 <u>Reconciliation of operating income to net cash provided by operating activities:</u>			
Operating income	\$ 649	\$ (63,073)	\$ (62,424)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	-	77,467	77,467
Decrease (increase) in accounts receivable	-	7,700	7,700
Decrease (increase) in inventory	936	-	936
Increase (decrease) in accounts payable	55	(776)	(721)
Total adjustments	991	84,391	85,382
Net cash provided by operating activities	\$ 1,640	\$ 21,318	\$ 22,958

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
June 30, 2004**

<u>Assets</u>	<u>Agency Funds</u>	<u>Retirement Benefit Trust Fund</u>
Cash and cash equivalents	\$ 516,629	\$ 1,572,671
Interest receivable	1,756	5,490
Due from other funds	<u>391,669</u>	<u>485</u>
Total assets	<u>\$ 910,054</u>	<u>1,578,646</u>
 <u>Liabilities</u> 		
Liabilities:		
Accounts payable & accrued liabilities	\$ <u>910,054</u>	<u>-</u>
Total liabilities	<u>\$ 910,054</u>	<u>-</u>
 <u>Net Assets</u> 		
Net assets held in trust for retirement benefit		<u>1,578,646</u>
Total net assets		<u>\$ 1,578,646</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
For the Year Ended June 30, 2004**

	<u>Retirement Benefit Trust Fund</u>
<u>Additions:</u>	
Contributions	\$ 22,347
Interest	<u>1,963</u>
Total additions	<u>24,310</u>
 <u>Deductions:</u>	
Other expenditures	<u>-</u>
Total deductions	<u>-</u>
Change in net assets	<u>24,310</u>
Net assets held in trust for retirement benefits, July 1, 2003	<u>1,554,336</u>
Net assets held in trust for retirement benefits, June 30, 2004	<u>\$ 1,578,646</u>

See accompanying notes to the basic financial statements.

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SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

The South Coast Air Quality Management District (AQMD) was established pursuant to the Lewis Air Quality Management Act on February 1, 1977, commencing at Section 40400 of the Health and Safety Code of the State of California. The AQMD encompasses all of Orange County and parts of Los Angeles, San Bernardino, and Riverside Counties. The AQMD operates a network of air monitoring stations, analyzes air quality data and establishes maximum emission levels for stationary, commercial, and industrial facilities that are enforced through the AQMD's permit system.

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

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

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

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

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

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

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

Government-wide Financial Statements

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

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

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

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

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

The types of transactions reported as program revenues are reported in three categories: 1) fees and charges including stationary source fees from permitted facilities and mobile source fees from motor vehicle registrations; 2) operating grants and subventions that are in support of air pollution program activities; and 3) restricted special revenue sources. Program expenditures are subtracted from program revenues to present the net cost of each functional activity. Interest income and other miscellaneous items not properly included among program revenues are reported as general revenues.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

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

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

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

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

Governmental Fund Financial Statements

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

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

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

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

All governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Using the current

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

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

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

Proprietary Fund Statements

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

Fiduciary Fund Statements

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

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 \$177.5 million and over 10,500 tons of emissions reduced. This special fund was established in FY 1991-92.
- 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 720 projects totaling \$108.2 million.
- Carl Moyer Program Fund - Established in fiscal year 2000 to account for activities related to the administering of state funds set aside for the replacement of diesel-powered vehicles with cleaner-technology vehicles. It has funded over 3,000 vehicles and 33 infrastructure/charging stations, totaling \$62 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.

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
June 30, 2004

The AQMD reports the following major proprietary funds:

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

The AQMD also reports the following fund types:

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

D. Assets, Liabilities and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Investments

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

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
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

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
June 30, 2004

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, 2004:

	<u>General Fund</u>	<u>Major Governmental Funds</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Reserved for:				
Encumbrances	\$ 7,682,304	\$ 43,183,847	\$ 27,311,687	\$ 78,177,838
Inventories	50,619	-	-	50,619
Total Reserved Fund Balances	<u>7,732,923</u>	<u>43,183,847</u>	<u>27,311,687</u>	<u>78,228,457</u>
Designated for:				
Self-insurance	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Litigation/Enforcement	87,500	-	-	87,500
Equipment Replacement	1,000,000	-	-	1,000,000
Budget Stabilization	6,000,000	-	-	6,000,000
Unemployment Claims	80,000	-	-	80,000
Enhanced				
Compliance Activities	291,061	-	-	291,061
Port Compliance/Power Plant				
Emissions Mitigation	495,807	-	-	495,807
Undesignated	<u>23,754,723</u>	<u>80,902,320</u>	<u>47,398,922</u>	<u>152,055,965</u>
Total Unreserved Fund Balances	<u>33,709,091</u>	<u>80,902,320</u>	<u>47,398,922</u>	<u>162,010,333</u>
Total Fund Balances	<u>\$ 41,442,014</u>	<u>\$ 124,086,167</u>	<u>\$ 74,710,609</u>	<u>\$ 240,238,790</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004**

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.

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, 2004.

	Primary Government	Component Unit
Cash on hand	\$ 527,100	\$ -
Cash in bank	60,000	1,040,294
Cash equivalents in pooled investments	232,260,929	-
	\$ 232,848,029	\$ 1,040,294

DEPOSITS

At June 30, 2004, the carrying amount of the AQMD's bank deposits was \$60,000 and the bank balance was \$302,571. The entire amount was covered by federal depository insurance.

At June 30, 2004, the carrying amount and bank balance of the AQMD's component unit bank deposits was \$1,040,294 of which \$100,000 was covered by federal depository insurance. The remaining \$940,294 in excess of \$100,000 was collateralized as required by state law.

INVESTMENTS

At June 30, 2004 the carrying amount of AQMD's cash equivalents held in Los Angeles County's Pooled Surplus Investment Fund and State of California Local Agency Investment Fund amounted to \$232,260,929 are stated at fair value. Investments in the amount of \$9,000,000 are reported at amortized cost which approximates market value.

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

For the past 27 years, the County of Los Angeles has provided treasury management services to the AQMD. These services are limited to the processing of payroll and accounts payable warrants and the investment of available cash balances. In June 2000 and again in March 2004, the Governing Board reviewed the treasury management options available to the AQMD and elected to continue with the services provided by Los Angeles County.

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

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

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

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

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

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

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

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

The following table summarizes investments categorized in accordance with GASB Statement 3 at June 30, 2004.

	<u>Category</u>			<u>Uncategorized</u>	<u>Reported Amount/Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash Equivalents					
Investment in Los Angeles County’s PSI Fund	\$ -	-	\$ -	\$192,665,769	\$192,665,769
Investment in Local Agency Investment Fund	-	-	-	39,595,160	39,595,160
Total Cash Equivalents	-	-	-	<u>232,260,929</u>	<u>232,260,929</u>
Investments					
U.S. Government Securities	9,000,000	-	-	-	9,000,000
Total Investments	9,000,000	-	-	-	9,000,000
Total Cash Equivalent & Investments	<u>\$9,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$232,260,929</u>	<u>\$241,260,929</u>

The AQMD is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California.

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

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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004**

III. DUE FROM OTHER GOVERNMENT AGENCIES AND ACCOUNTS RECEIVABLE

Due from other government agencies at June 30, 2004 consists of the following:

CALTRANS – Department of Transportation	\$ 75
California Air Resources Board	61,003
U.S. Treasury, GSA (Lease)	4,303
Environmental Protection Agency	1,520,835
Department of Motor Vehicles	<u>10,321,510</u>
Total	<u>\$11,907,726</u>

Accounts receivable consist of the following at June 30, 2004:

Penalties and Settlement	\$ 8,250,000
Emission Fees, Permits, Annuals and Other Receivables	729,459
Air Toxics “Hot Spots”	1,196,777
Clean Fuels Stationary Sources	248,493
Clean Fuels Conference	<u>135,000</u>
	\$10,559,729
Less Allowance for Doubtful Accounts	<u>(79,994)</u>
Total	<u>\$10,479,735</u>

IV. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The components of interfund balances as of June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Agency Fund	Air Toxics Fund	\$ 391,669
General Fund	Air Toxics Fund	215
Retirement Benefit Trust Fund	General Fund	<u>485</u>
Total		<u>\$ 392,369</u>

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004**

<u>Transfers Out</u>	<u>Transfers In</u>				<u>Total</u>
	<u>CBE/OCE Settlement Agreement</u>	<u>Clean Fuels Conference</u>	<u>AES Settlement Projects</u>	<u>Lower Emission School Bus Replacement & Retrofit</u>	
Rule 1309.1 Priority Reserve Fund	\$ 1,000,000	\$ -	\$ -	\$ 12,000,000	\$ 13,000,000
Air Quality Investment Fund	-	-	1,500,000	-	1,500,000
Clean Fuels Program Fund	-	200,000	-	-	200,000
Total	<u>\$ 1,000,000</u>	<u>\$ 200,000</u>	<u>\$ 1,500,000</u>	<u>\$ 12,000,000</u>	<u>\$ 14,700,000</u>

The transfer into the Communities for Better Environment (CBE)/Our Children's Earth (OCE) Settlement Agreement Fund in the amount of \$1,000,000 represents the amount authorized by the Governing Board as part of the settlement agreement to fund emission reduction projects in disproportionately impacted areas.

The transfer of \$12 million to the Lower Emission School Bus Replacement & Retrofit Program was authorized by the Governing Board for the Chairman's School Bus Initiative, called the School Bus Replacement and Retrofit Program in order to reduce children's exposure to toxic diesel particulate matter and other smog forming pollutants.

The AES Settlement Projects Fund received a transfer back from the RECLAIM (Regional Clean Air Incentives Market) AQIP (Air Quality Investment Program) in the amount of \$1,500,000 for disbursement to the Brain Tumor and Air Pollution Foundation subject to certain conditions.

The transfer into the Clean Fuels Conference Fund (formerly called Fuel Cells Conference Fund) in the amount of \$200,000 represents the amount authorized by the Governing Board to fund all Clean Fuels-related conferences to facilitate the development of hydrogen-powered technologies, including motor vehicles, refunding infrastructures and stationary applications.

V. CAPITAL ASSETS AND DEPRECIATION

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, 2004 are as follows:

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

	Balance July 1, 2003	Adjustments	Increase	Decrease	Balance June 30, 2004
Governmental Activities:					
Capital assets not being Depreciated:					
Land	\$ 8,829,792	\$ -	\$ -	\$ -	\$ 8,829,792
Total Capital Assets not being Depreciated	8,829,792	-	-	-	8,829,792
Capital assets being depreciated:					
Buildings and Improvements	73,652,968	-	34,683	-	73,687,651
Equipment	21,346,097	73,601	2,783,737	(1,616,101)	22,587,334
Total Capital Assets being Depreciated	94,999,065	73,601	2,818,420	(1,616,101)	96,274,985
Less Accumulated Depreciation for:					
Buildings and Improvements	(27,975,869)	-	(2,466,262)	6,286	(30,435,845)
Equipment	(14,270,608)	-	(2,089,312)	175,107	(16,184,813)
Total Accumulated Depreciation	(42,246,477)	-	(4,555,574)	181,393	(46,620,658)
Net Capital Assets being Depreciated	52,752,588	73,601	(1,737,154)	(1,434,708)	49,654,327
Net Capital Assets, Governmental Activities	\$ 61,582,380	\$ 73,601	\$ (1,737,154)	\$ (1,434,708)	\$ 58,484,119
Business-Type Activities:					
Compressed Natural Gas (CNG) Fueling Station	\$ 608,476	\$ -	\$ -	\$ -	\$ 608,476
Total Capital Assets being Depreciated	608,476	-	-	-	608,476
Less Accumulated Depreciation	(43,463)	5,653	(83,120)	-	(120,930)
Net Capital Assets, Business Type Activities	\$ 565,013	\$ 5,653	\$ (83,120)	\$ -	\$ 487,546

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004**

Adjustments are a result of prior year additions and recorded in FY 03-04.

For the year ended June 30, 2004, the depreciation expense of \$4,555,574 was charged to the AQMD's functions/programs in the governmental activities as follows:

Advance Clean Air Technology	\$ 131,916
Ensure Compliance with Clean Air Rules	1,692,869
Customer Service	316,115
Develop Programs to Achieve Clean Air	218,644
Develop Rules to Achieve Clean Air	278,370
Monitoring Air Quality	1,215,331
Permit Review	646,626
Policy Support	55,703
Total Depreciation Expense	<u>\$ 4,555,574</u>

VI. LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the AQMD for the year ended June 30, 2004:

	<u>Balance July 1, 2003</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance June 30, 2004</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due in More Than One Year</u>
Governmental Activities:						
Claims Payable:						
General Liability	\$ 201,571	\$ 105,419	\$ 229,830	\$ 77,160	\$ 61,728	\$ 15,432
Workers' Compensation	475,170	708,300	258,418	925,052	323,768	601,284
Compensated Absences	10,583,812	878,660	351,054	11,111,418	361,024	10,750,394
Installment Sale Obligation:						
Building	57,575,000	-	4,325,000	53,250,000	4,515,000	48,735,000
Installment Pension						
Obligation Bonds	<u>26,946,896</u>	<u>47,030,000</u>	<u>1,715,000</u>	<u>72,261,896</u>	<u>1,835,000</u>	<u>70,426,896</u>
	<u>\$95,782,449</u>	<u>\$48,722,379</u>	<u>\$6,879,302</u>	<u>\$137,625,526</u>	<u>\$7,096,520</u>	<u>\$130,529,006</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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004**

debt service savings of \$20,151,420 through June 30, 2022. During the fiscal year ended June 30, 2004, \$1,715,000 in principal and \$1,349,693 in interest were paid on the bonds. The principal balance outstanding at June 30, 2004 amounted to \$25,231,896.

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

Year Ending June 30	Principal	Interest	Total
2005	\$ 1,835,000	\$ 1,232,598	\$ 3,067,598
2006	1,960,000	1,106,022	3,066,022
2007	2,095,000	969,859	3,064,859
2008	2,245,000	822,816	3,067,816
2009	2,400,000	663,933	3,063,933
2010-2013	9,187,007	3,076,392	12,263,399
2014-2018	3,527,815	11,797,185	15,325,000
2019-2022	1,982,074	10,277,926	12,260,000
Total	<u>\$ 25,231,896</u>	<u>\$ 29,946,731</u>	<u>\$ 55,178,627</u>

Series 2004 Pension Obligation Bonds

On June 29, 2004, the AQMD issued and sold taxable pension obligation bonds to retire the Unfunded Actuarial Accrued Liability (UAAL) due to the San Bernardino County Employees' Retirement Association. The issuance and sale of \$47,030,000 will result in estimated total gross debt service savings of \$22.4 million through August 1, 2023. By retiring the UAAL in the amount of \$46,375,000 as of June 29, 2004, the AQMD will realize a reduction of 5.61% in its FY 04-05 retirement rates.

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:

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004**

Year Ending June 30	Principal	Interest	Total
2005	\$ -	\$ 1,509,353	\$ 1,509,353
2006	1,010,000	2,539,064	3,549,064
2007	1,210,000	2,486,340	3,696,340
2008	1,430,000	2,423,640	3,853,640
2009	1,670,000	2,350,014	4,020,014
2010-2013	8,085,000	8,486,374	16,571,374
2014-2018	12,730,000	7,904,220	20,634,220
2019-2023	20,895,000	3,870,446	24,765,446
Total	\$ <u>47,030,000</u>	\$ <u>31,569,451</u>	\$ <u>78,599,451</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, 2004, the remaining balance is \$18,450,000.

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, 2004, the remaining principal balance on the Series 1992 bonds is \$8,615,000. This remaining balance in the amount of \$5,375,000 and \$3,240,000 are due on August 1, 2010 and August 1, 2011, respectively. Interest is payable on each February 1st and August 1st and is computed based upon a 6% interest rate.

On June 1, 2002, the Corporation issued \$26,820,000 in Installment Sale Revenue Bonds with interest rates ranging from 2.75% to 4.25% to refund \$25,460,000 of the Series 1992 bonds with interest rates ranging from 4.00% to 6.00%. As of June 30, 2004, the remaining balance is \$26,185,000.

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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004**

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

Year Ending June 30	Principal	Interest	Total
2005	\$ 4,515,000	\$ 1,544,589	\$6,059,589
2006	4,540,000	1,519,980	6,059,980
2007	4,565,000	1,494,105	6,059,105
2008	4,595,000	1,464,011	6,059,011
2009	4,625,000	1,428,342	6,053,342
2010-2014	26,535,000	3,936,920	30,471,920
2015	<u>3,875,000</u>	<u>82,344</u>	<u>3,957,344</u>
Total	\$ <u>53,250,000</u>	\$ <u>11,470,291</u>	\$ <u>64,720,291</u>

Prior Year's Defeasance of Debt

In the prior year, the AQMD defeased a portion of the Series 1992 bonds by depositing bond proceeds to an escrow agent. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called for redemption or matures. At June 30, 2004, there are no outstanding defeased bonds.

Allocation of Interest Expenses

Total interest expenses on long-term debt for the year ended June 30, 2004 amounted to \$3,586,199. The following is the interest expense allocated to the various functional activities categories:

Advance Clean Air Technology	\$ 148,051
Ensure Compliance with Clean Air Rules	1,309,555
Customer Service	388,225
Develop Programs to Achieve Clean Air	263,515
Develop Rules to Achieve Clean Air	262,900
Monitoring Air Quality	356,560
Permit Review	788,954
Policy Support	68,439
Total Interest on Long-term Debt	<u>\$ 3,586,199</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 \$121,484,402 of property insurance including boiler and machinery (with \$25 million of earthquake and flood coverage), \$10 million for directors' and officers'

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004**

liability (including employment practice liability), \$500,000 for employee dishonesty and theft, \$5 million for excess general and automobile losses in excess of \$1 million, and excess workers' compensation for losses over \$600,000. In addition, the AQMD is self-insured for general and automobile liability for losses up to \$1 million and for workers' compensation for losses over \$600,000. As of June 30, 2004, \$925,052 and \$77,160, respectively, had been accrued for workers' compensation and general liability claims.

An appropriate amount has been recorded in the General Fund's financial statements to the extent that the AQMD anticipates that these amounts will be paid from current resources. While the ultimate amount of losses incurred through June 30, 2004, 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, 2003 and 2004:

	<u>General Liability</u>	<u>Workers' Compensation</u>	<u>Totals</u>
Claims payable, July 1, 2002	\$ 113,871	\$ 229,270	\$ 343,141
Current year claims and changes in estimates	219,917	509,284	729,201
Claim payments	(132,217)	(263,384)	(395,601)
Claims payable, June 30, 2003	<u>\$ 201,571</u>	<u>\$ 475,170</u>	<u>\$ 676,741</u>
Claims payable, July 1, 2003	\$ 201,571	\$ 475,170	\$ 676,741
Current year claims and changes in estimates	105,419	708,300	813,719
Claims payments	(229,830)	(258,418)	(488,248)
Claims payable, June 30, 2004	<u>\$ 77,160</u>	<u>\$ 925,052</u>	<u>\$ 1,002,212</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, 2004 amounted to \$9,834,739 (\$11,645 to LACERA and \$9,823,094 to SBCERA).

In 1977, AQMD employees who were members of the LACERA system were given the option to transfer to the SBCERA system. Some employees decided to stay with LACERA.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

Most have already left employment and during FY 03-04 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, 2004 was \$100,934. The AQMD's contribution for the same period was \$11,645. 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 – 3rd Floor, San Bernardino, CA 92415.

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

Funding Policy

Participants are required to contribute a percentage of their annual compensation to the plan based on the participant's age at entry into the plan. The AQMD (a participating member) contributes an amount based on actuarial assumptions that, together with employee contributions, is intended to provide sufficient reserves for payment of all prospective benefits to members. The AQMD is required to contribute at an actuarially-determined rate. The required employer contribution rates for the year ended June 30, 2004 were 18.17% for management, confidential and any employee who started before July 1, 1979 and 15.68% for non-management and non-confidential employees who started on or after July 1, 1979. The contribution requirements of the Plan members are established by State statute and may be amended by SBCERA Board of Retirement.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004**

Annual Pension Cost

For the year ended June 30, 2004, the AQMD's annual pension cost and actual contributions for its 749 employees who are SBCERA members were \$9,823,094. The AQMD employee contributions to the plan amounted to \$1,277,396. The required contributions for the year ended June 30, 2004 were determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) investment rate of return, compounded semi-annually, 8.16% per annum; (b) projected salary increases of 4.25% per annum; and (c) cost of living adjustments for retirees of 2.00% per annum. Both (a) and (b) include an inflation component of 4.00%.

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

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>
2004	\$9,823,094	100%	-
2003	\$4,357,801	100%	-
2002	\$4,114,275	100%	-

IX. DEFERRED COMPENSATION PLAN

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

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

Effective January 1, 1999, federal legislation requires the Section 457 plan assets to be placed in trust for the exclusive use of the plan participants and their beneficiaries. The AQMD's deferred compensation administrator Hartford Life Insurance Co. qualifies as the plan trustee to meet the federal requirements. In accordance with GASB Statement 32, the AQMD no longer reports the plan assets and liabilities in its financial statements. As of June 30, 2004, investments with a fair value of \$49,437,887 are held in trust.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

X. COMMITMENTS

Guaranteed Loans

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

In June 2001, the AQMD entered into an agreement with the California Pollution Control Financing Authority (CPCFA) to be an "independent contributor" to the California Capital Access Program (CalCAP). The AQMD transferred \$100,000 to the CPCFA to cover borrower fees on any qualified small business CalCAP loans for air quality-related equipment or processes. As of June 30, 2003, all loans that were guaranteed by the AQAF have already matured. As of June 30, 2004, AQMD provided a 50% partial guarantee on defaulted loans in the amount of \$30,779; no recoveries were made on these defaulted loans. AQAF's fund balance amounted to \$2,364,142 at fiscal year ended June 30, 2004.

Operating Leases

Rental expense for noncancelable operating leases was \$472,197 for the year ended June 30, 2004. Future minimum lease payments under noncancelable operating leases of the AQMD total as follows:

Year Ending June 30, 2005	\$ 449,765
Year Ending June 30, 2006	130,318
Through September 30, 2006	<u>25,299</u>
Total	<u>\$ 605,382</u>

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

XI. PENDING LITIGATION

A lawsuit has been filed, Engine Manufacturers Association v South Coast Air Quality Management District, 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. 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, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Emission fees	\$ 20,369,300	\$ 20,369,300	\$ 19,497,850	\$ (871,450)
Annual operating fees	27,112,450	27,112,450	28,487,923	1,375,473
Permit fees	13,197,380	13,197,380	11,202,036	(1,995,344)
Clean fuels mobile / stationary sources	15,699,700	17,353,720	16,740,121	(613,599)
Air toxics	1,355,500	1,480,500	1,556,840	76,340
Transportation	860,050	860,050	748,006	(112,044)
State subvention	4,023,000	4,023,000	4,021,970	(1,030)
Federal grant	5,200,000	11,125,828	8,443,715	(2,682,113)
State Grant	-	-	121,000	121,000
State Miscellaneous	-	-	55,013	55,013
Interest	1,600,000	1,600,000	845,849	(754,151)
Lease revenue	338,000	373,340	372,707	(633)
Source test/analysis fees	333,720	333,720	342,909	9,189
Hearing Board	329,600	329,600	373,924	44,324
Penalties/settlements	4,100,000	4,100,000	12,232,181	8,132,181
Subscriptions	56,000	56,000	36,301	(19,699)
Other revenue	898,000	1,798,000	799,732	(998,268)
Total revenues	95,472,700	104,112,888	105,878,077	1,765,189
Expenditures:				
Current:				
Salaries and employee benefits	75,012,500	76,030,455	74,539,634	1,490,821
Insurance	1,502,000	1,508,600	1,075,930	432,670
Rent	668,050	774,363	725,668	48,695
Supplies	2,493,770	2,912,436	2,141,151	771,285
Contract and special services	7,993,670	16,422,904	13,185,430	3,237,474
Maintenance	1,019,020	1,127,465	866,502	260,963
Travel and auto	434,000	560,464	445,745	114,719
Utilities	1,935,000	1,942,400	1,465,830	476,570
Communications	582,400	591,940	553,238	38,702
Uncollectible accounts	-	3,300	157,911	(154,611)
Other	815,720	1,117,080	3,656,174	(2,539,094)
Capital outlays	202,500	2,145,900	1,266,240	879,660
Debt service:				
Principal	6,040,000	6,040,000	6,040,000	-
Interest	2,914,900	2,914,900	2,914,873	27
Total expenditures	101,613,530	114,092,207	109,034,326	5,057,881
Other Financing Sources (Uses)				
Proceeds of pension obligation bonds	-	-	47,030,000	(47,030,000)
Total other financing sources	-	-	47,030,000	(47,030,000)
Special item:				
Payment to retirement system and related costs	-	-	(47,030,000)	47,030,000
Total special item	-	-	(47,030,000)	47,030,000
Total expenditure and other financing uses	101,613,530	114,092,207	109,034,326	5,057,881
Net change in budgetary fund balances	\$ (6,140,830)	\$ (9,979,319)	\$ (3,156,249)	\$ 6,823,070

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, 2004**

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

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

The AQMD presents a comparison of annual budget to actual results for the General Fund. The budgeted expenditure amounts represent the adopted budget adjusted for Governing Board approved supplemental appropriations. The budgeted revenue amounts represent the adopted budget modified for Governing Board approved adjustments which were based upon new or additional revenue sources. Supplemental expenditure appropriations of \$12,478,677 and revenue adjustments of \$8,640,188 were approved by the Governing Board in FY 03-04.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2004**

NOTE 2 – GENERAL FUND BUDGETARY BASIS RECONCILIATION

The General Fund Budgetary Basis on page 54 presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing expenditures data on a budgetary basis differ from those used to present financial statements in conformity with Generally Accepted Accounting Principles (GAAP), the following is a reconciliation of differences for the fiscal year ended June 30, 2004:

Expenditures and encumbrances (budgetary basis), June 30, 2004	\$109,034,326
Add: payments on encumbrances open at July 1, 2003	4,602,953
Less: encumbrances open at June 30, 2004	<u>(4,407,206)</u>
Expenditures (GAAP basis), June 30, 2004	<u>\$109,230,073</u>

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

. OTHER SUPPLEMENTARY INFORMATION

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2004**

Non-major Governmental Funds

Special Revenue Funds:

- Air Quality Studies Fund - Used to account for contributions made by outside organizations to fund various air quality studies. An independent Planning Review Panel recommends the types of studies to be undertaken and the Executive Officer approves all studies prior to funding. The purpose of the studies is to quantify the cost effectiveness of air pollution control measures.
- Air Toxics Fund - Used to account for fees received from industrial toxic air emitters. These funds are spent on planning and performing health risk evaluations for the purpose of developing a toxic emissions inventory for the South Coast Air Basin.
- Advanced Technology, Outreach and Education Fund – Used to account for monies contributed by companies in lieu of paying fines for violating AQMD rules. Contributed amounts must be used to pay costs associated with AQMD-sponsored research and development in cleaner burning fuels and other advanced technologies and public outreach and education related to advanced technology and air pollution and its impacts.
- Air Quality Assistance Fund - Used to account for funds set aside for the purpose of underwriting, guaranteeing, or otherwise participating in the provision of financial assistance to small businesses as required by Section 40448.7 of the California Health and Safety Code. (This section was repealed by its own terms January 1, 1999). In June 2000, the Governing Board authorized staff to revise the program to increase participation of small businesses. Certain revisions, including participation in the California Capital Access Program (CalCAP) to assist small businesses, were implemented in June 2001.
- Clean Fuels Conference Fund – Renamed the Fuel Cells Conference Fund to the Clean Fuels Conference Fund in fiscal year 2004 to account for monies received to fund all Clean Fuels related conferences. These conferences are held to facilitate the development of hydrogen-powered technologies, including motor vehicles, refueling infrastructure, and stationary applications.
- Air Quality Investment Program – Is one of the compliance options available to employers with 250 or more employees at a worksite who are subject to Rule 2202. This revenue is used to purchase emissions reductions credits to meet the required target. To date, \$30.8 million projects have been awarded to purchase over 22,000

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2004

tons of emission reductions. During fiscal year 2004, 12 contracts were awarded in the amount of \$4.9 million.

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

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

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

- Lower Emission School Bus Fund – Established in fiscal year 2001 to account for activities related to the administering of state funds set aside for the replacement and retrofit of high-emitting diesel-fueled school buses in the South Coast Air Basin. Funding for a total of \$41.6 million for school bus replacement and particulate matter (PM) trap retrofit has been provided for the period of fiscal years 2000 through 2004. This has enabled public school districts to purchase 201 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 1,272 diesel buses.
- Zero Emission Vehicle Incentive Program – Established in fiscal year 2001 to administer the State funds set aside for the implementation of the Zero Emission Vehicle (ZEV) Incentive Program.
- State Emissions Mitigation Fund – Established during fiscal year 2002 to account for the funds received from California Air Resources Board (CARB) to fund CARB selected projects on emission reductions within the South Coast Air Basin. This is in response to the Governor's statewide program to mitigate excess emissions from peaker power generation units to alleviate the power crisis in California. The AQMD has elected to report this fund as a major fund in fiscal year 2003 to enhance reporting consistency from prior year to current fiscal year.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2004**

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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
OTHER SUPPLEMENTARY INFORMATION
June 30, 2004**

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

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

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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2004**

<u>Assets</u>	Special Revenue				
	Air Quality Studies Fund	Air Toxics Fund	Advanced Technology Fund	Air Quality Assistance Fund	Clean Fuels Conference Fund
Cash and cash equivalents	\$ 52,482	\$ 870,494	\$ 399,246	\$ 2,356,488	\$ 268,632
Interest receivable	162	1,758	1,277	7,654	-
Accounts receivable, net	-	1,196,777	-	-	135,000
Total assets	\$ 52,644	\$ 2,069,029	\$ 400,523	\$ 2,364,142	\$ 403,632
<u>Liabilities and fund balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ -	\$ 489,383	\$ 7,503	\$ -	\$ -
Due to other funds	-	391,884	-	-	-
Unearned revenues	-	5,365	-	-	-
Total liabilities	-	886,632	7,503	-	-
Fund balances:					
Reserved for encumbrances	-	-	146,393	-	-
Unreserved	52,644	1,182,397	246,627	2,364,142	403,632
Total fund balances	52,644	1,182,397	393,020	2,364,142	403,632
Total liabilities and fund balances	\$ 52,644	\$ 2,069,029	\$ 400,523	\$ 2,364,142	\$ 403,632

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2004**

<u>Assets</u>	<u>Special Revenue</u>				
	<u>Air Quality Investment Fund</u>	<u>Lower-Emission School Bus Fund</u>	<u>Zero Emission Vehicle Incentive Fund</u>	<u>AES Settlement Projects Fund</u>	<u>Rule 1309.1 Priority Reserve Fund</u>
Cash and cash equivalents	\$ 23,905,541	\$ 16,940,754	\$ 811,867	\$ 4,908,244	\$ 7,625,079
Interest receivable	76,797	54,382	2,543	15,514	27,302
Accounts receivable, net	<u>204,748</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 24,187,086</u>	<u>\$ 16,995,136</u>	<u>\$ 814,410</u>	<u>\$ 4,923,758</u>	<u>\$ 7,652,381</u>
<u>Liabilities and fund balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ 352,132	\$ 260,910	\$ 60,000	\$ 18,467	\$ 403,400
Due to other funds	-	-	-	-	-
Unearned revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>352,132</u>	<u>260,910</u>	<u>60,000</u>	<u>18,467</u>	<u>403,400</u>
Fund balances:					
Reserved for encumbrances	8,766,560	3,596,484	294,000	3,153,093	462,220
Unreserved	<u>15,068,394</u>	<u>13,137,742</u>	<u>460,410</u>	<u>1,752,198</u>	<u>6,786,761</u>
Total fund balances	<u>23,834,954</u>	<u>16,734,226</u>	<u>754,410</u>	<u>4,905,291</u>	<u>7,248,981</u>
Total liabilities and fund balances	<u>\$ 24,187,086</u>	<u>\$ 16,995,136</u>	<u>\$ 814,410</u>	<u>\$ 4,923,758</u>	<u>\$ 7,652,381</u>

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2004**

<u>Assets</u>	Special Revenue				
	CARB ERC Bank Fund	LADWP Settlement Fund	State-Emissions Mitigation Fund	Natural Gas Vehicle Partner Fund	State BUG Program Fund
Cash and cash equivalents	\$ 730,793	\$ 368,121	\$ 10,844,995	\$ 342,324	\$ 274,060
Interest receivable	2,257	1,132	33,968	1,022	1,045
Accounts receivable, net	-	-	-	-	-
Total assets	\$ 733,050	\$ 369,253	\$ 10,878,963	\$ 343,346	\$ 275,105
<u>Liabilities and fund balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$ -	\$ 280	\$ 115,876	\$ -	\$ -
Due to other funds	-	-	-	-	-
Unearned revenues	-	-	-	-	-
Total liabilities	-	280	115,876	-	-
Fund balances:					
Reserved for encumbrances	302,600	214,272	9,675,610	78,700	-
Unreserved	430,450	154,701	1,087,477	264,646	275,105
Total fund balances	733,050	368,973	10,763,087	343,346	275,105
Total liabilities and fund balances	\$ 733,050	\$ 369,253	\$ 10,878,963	\$ 343,346	\$ 275,105

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2004**

<u>Assets</u>	Special Revenue					Total
	Asthma & Brain Cancer Research Fund	Dry Cleaners Financial Incentives Grant Prog Fund	Rule 1173 Mitigation Fee Fund	CBE / OCE Settlement Agreement Fund	Capital Projects Fund	
Cash and cash equivalents	\$ 735,440	\$ 1,214,126	\$ 1,404,669	\$ 1,000,000	\$ -	\$ 75,053,355
Interest receivable	2,272	3,982	4,089	-	-	237,156
Accounts receivable, net	-	-	-	-	-	1,536,525
Total assets	\$ 737,712	\$ 1,218,108	\$ 1,408,758	\$ 1,000,000	\$ -	\$ 76,827,036
<u>Liabilities and fund balances</u>						
Liabilities:						
Accounts payable & accrued liabilities	\$ 1,227	\$ 10,000	\$ -	\$ -	\$ -	\$ 1,719,178
Due to other funds	-	-	-	-	-	391,884
Unearned revenues	-	-	-	-	-	5,365
Total liabilities	1,227	10,000	-	-	-	2,116,427
Fund balances:						
Reserved for encumbrances	621,755	-	-	-	-	27,311,687
Unreserved	114,730	1,208,108	1,408,758	1,000,000	-	47,398,922
Total fund balances	736,485	1,208,108	1,408,758	1,000,000	-	74,710,609
Total liabilities and fund balances	\$ 737,712	\$ 1,218,108	\$ 1,408,758	\$ 1,000,000	\$ -	\$ 76,827,036

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, 2004**

	Special Revenue				
	Air Quality Studies Fund	Air Toxics Fund	Advanced Technology Fund	Air Quality Assistance Fund	Clean Fuels Conference Fund
Revenues:					
Air toxics	\$ -	\$ (127,182)	\$ -	\$ -	\$ -
State grant	-	-	-	-	-
Emission reduction fees	-	-	-	-	-
Interest	689	22,333	6,037	32,452	-
Reclaim & executive order mitigation	-	-	-	-	-
Other revenue	-	(252)	-	-	210,000
Total revenues	689	(105,101)	6,037	32,452	210,000
Expenditures:					
Contract and special services	-	9,084	23,010	-	6,355
Other operating expenditures	-	-	-	30,779	13
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	216,801	-	-	-
Total expenditures	-	225,885	23,010	30,779	6,368
Excess (deficiency) of revenues over (under) expenditures before transfers	689	(330,986)	(16,973)	1,673	203,632
Transfers in	-	-	-	-	200,000
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	200,000
Net change in fund balances	689	(330,986)	(16,973)	1,673	403,632
Fund balances, July 1, 2003	51,955	1,513,383	409,993	2,362,469	-
Fund balances, June 30, 2004	<u>\$ 52,644</u>	<u>\$ 1,182,397</u>	<u>\$ 393,020</u>	<u>\$ 2,364,142</u>	<u>\$ 403,632</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, 2004**

	Special Revenue				
	Air Quality Investment Fund	Lower-Emission School Bus Fund	Zero Emission Vehicle Incentive Fund	AES Settlement Projects Fund	Rule 1309.1 Priority Reserve Fund
	Fund	Fund	Fund	Fund	Fund
Revenues:					
Air toxics	\$ -	\$ -	\$ -	\$ -	\$ -
State grant	-	2,066,250	-	-	-
Emission reduction fees	-	-	-	-	375,000
Interest	362,981	165,450	14,201	68,526	216,782
Reclaim & executive order mitigation	601,086	-	-	-	-
Other	3,098,001	-	-	-	-
Total revenues	4,062,068	2,231,700	14,201	68,526	591,782
Expenditures:					
Contract and special services	7,610,035	9,577,256	336,000	1,852,098	448,552
Other operating expenditures	484,434	-	-	-	990
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	-	-	-	-
Total expenditures	8,094,469	9,577,256	336,000	1,852,098	449,542
Excess (deficiency) of revenues over (under) expenditures before transfers	(4,032,401)	(7,345,556)	(321,799)	(1,783,572)	142,240
Transfers in	-	12,000,000	-	1,500,000	-
Transfers out	(1,500,000)	-	-	-	(13,000,000)
Total other financing sources (uses)	(1,500,000)	12,000,000	-	1,500,000	(13,000,000)
Net change in fund balances	(5,532,401)	4,654,444	(321,799)	(283,572)	(12,857,760)
Fund balances, July 1, 2003	29,367,355	12,079,782	1,076,209	5,188,863	20,106,741
Fund balances, June 30, 2004	<u>\$ 23,834,954</u>	<u>\$ 16,734,226</u>	<u>\$ 754,410</u>	<u>\$ 4,905,291</u>	<u>\$ 7,248,981</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, 2004**

	Special Revenue				
	CARB ERC	LADWP	State-Emissions	Natural Gas	State BUG
	Bank Fund	Settlement Fund	Mitigation Program Fund	Vehicle Partner Fund	Program Fund
Revenues:					
Air toxics	\$ -	\$ -	\$ -	\$ -	\$ -
State grant	-	-	-	-	-
Emission reduction fees	-	-	-	-	-
Interest	9,604	6,298	160,260	4,605	8,709
Reclaim & executive order mitigation	-	-	-	-	-
Other	-	31,593	389,276	25,000	-
Total revenues	<u>9,604</u>	<u>37,891</u>	<u>549,536</u>	<u>29,605</u>	<u>8,709</u>
Expenditures:					
Contract and special services	-	112,037	2,659,253	51,110	525,000
Other operating expenditures	-	1,155	-	2,809	-
Capital outlay	-	-	-	-	-
Uncollectible accounts	-	-	-	-	-
Total expenditures	<u>-</u>	<u>113,192</u>	<u>2,659,253</u>	<u>53,919</u>	<u>525,000</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>9,604</u>	<u>(75,301)</u>	<u>(2,109,717)</u>	<u>(24,314)</u>	<u>(516,291)</u>
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>9,604</u>	<u>(75,301)</u>	<u>(2,109,717)</u>	<u>(24,314)</u>	<u>(516,291)</u>
Fund balances, July 1, 2003	<u>723,446</u>	<u>444,274</u>	<u>12,872,804</u>	<u>367,660</u>	<u>791,396</u>
Fund balances, June 30, 2004	<u>\$ 733,050</u>	<u>\$ 368,973</u>	<u>\$ 10,763,087</u>	<u>\$ 343,346</u>	<u>\$ 275,105</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, 2004**

	Special Revenue					Total
	Asthma & Brain Cancer Research Fund	Dry Cleaners Financial Incentives Grant Prog Fund	Rule 1173 Mitigation Fee Fund	CBE/OCE Settlement Agreement Fund	Capital Projects Fund	
Revenues:						
Air toxics	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (127,182)
State grant	-	-	-	-	-	2,066,250
Emission reduction fees	-	-	-	-	-	375,000
Interest	10,196	18,108	8,758	-	-	1,115,989
Reclaim & executive order mitigation	-	-	-	-	-	601,086
Other	-	-	1,400,000	-	108,027	5,261,642
Total revenues	<u>10,196</u>	<u>18,108</u>	<u>1,408,758</u>	<u>-</u>	<u>108,027</u>	<u>9,292,788</u>
Expenditures:						
Contract and special services	1,227	620,000	-	-	-	23,831,017
Other operating expenditures	722,567	-	-	-	-	1,242,747
Capital outlay	-	-	-	-	108,027	108,027
Uncollectible accounts	-	-	-	-	-	216,801
Total expenditures	<u>723,794</u>	<u>620,000</u>	<u>-</u>	<u>-</u>	<u>108,027</u>	<u>25,398,592</u>
Excess (deficiency) of revenues over (under) expenditures before transfers	<u>(713,598)</u>	<u>(601,892)</u>	<u>1,408,758</u>	<u>-</u>	<u>-</u>	<u>(16,105,802)</u>
Transfers in	-	-	-	1,000,000	-	14,700,000
Transfers out	-	-	-	-	-	(14,500,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>200,000</u>
Net change in fund balances	<u>(713,598)</u>	<u>(601,892)</u>	<u>1,408,758</u>	<u>1,000,000</u>	<u>-</u>	<u>(15,905,802)</u>
Fund balances, July 1, 2003	<u>1,450,083</u>	<u>1,810,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,616,412</u>
Fund balances, June 30, 2004	<u>\$ 736,485</u>	<u>\$ 1,208,108</u>	<u>\$ 1,408,758</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 74,710,609</u>

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
June 30, 2004**

	SCAQMD Building Corporation Fund	General Purpose Fund	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 507,574	\$ 9,055	\$ 516,629
Interest receivable	1,756	-	1,756
Due from other funds	-	391,669	391,669
Total assets	\$ 509,330	\$ 400,724	\$ 910,054
<u>Liabilities</u>			
Accounts payable and accrued liabilities	509,330	400,724	910,054
Total liabilities	\$ 509,330	\$ 400,724	\$ 910,054

See independent auditor's report.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
June 30, 2004**

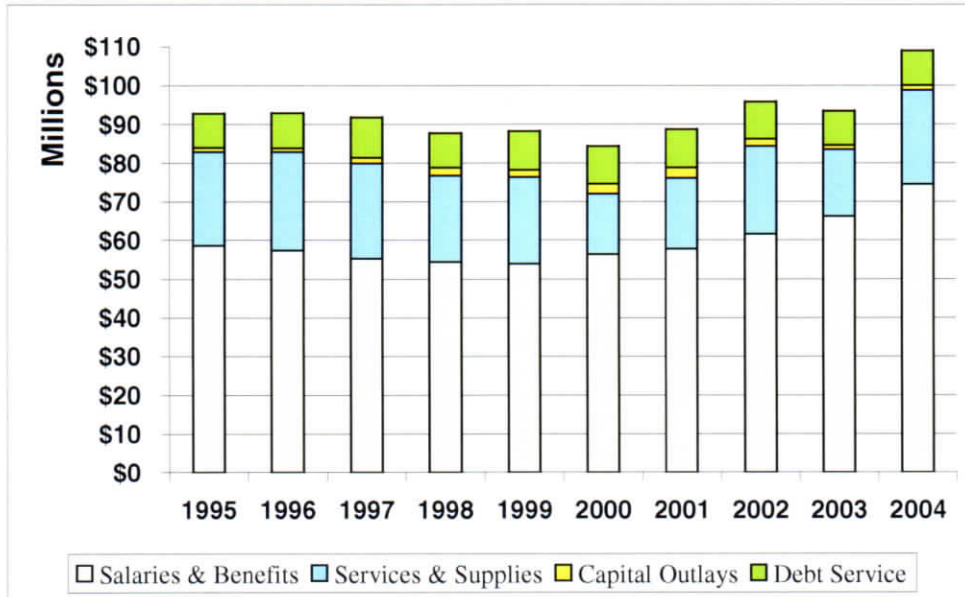
	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<u>General purpose fund</u>				
Assets				
Cash	\$ 3,759	\$ 120,748	\$ 115,452	\$ 9,055
Due from other funds	464,298	-	72,629	391,669
Total assets	<u>\$ 468,057</u>	<u>\$ 120,748</u>	<u>\$ 188,081</u>	<u>\$ 400,724</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 468,057	\$ 120,748	\$ 188,081	\$ 400,724
Total liabilities	<u>\$ 468,057</u>	<u>\$ 120,748</u>	<u>\$ 188,081</u>	<u>\$ 400,724</u>
<u>SCAQMD building corporation fund</u>				
Assets				
Cash	\$ 499,773	\$ 7,801	\$ -	\$ 507,574
Interest receivable	2,446	1,756	2,446	1,756
Total assets	<u>\$ 502,219</u>	<u>\$ 9,557</u>	<u>\$ 2,446</u>	<u>\$ 509,330</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 502,219	\$ 9,557	\$ 2,446	\$ 509,330
Total liabilities	<u>\$ 502,219</u>	<u>\$ 9,557</u>	<u>\$ 2,446</u>	<u>\$ 509,330</u>
<u>Total all agency funds</u>				
Assets				
Cash	\$ 503,532	\$ 128,549	\$ 115,452	\$ 516,629
Interest receivable	2,446	1,756	2,446	1,756
Due from other funds	464,298	-	72,629	391,669
Total assets	<u>\$ 970,276</u>	<u>\$ 130,305</u>	<u>\$ 190,527</u>	<u>\$ 910,054</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 970,276	\$ 130,305	\$ 190,527	\$ 910,054
Total liabilities	<u>\$ 970,276</u>	<u>\$ 130,305</u>	<u>\$ 190,527</u>	<u>\$ 910,054</u>

See independent auditor's report.

STATISTICAL SECTION

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

Last Ten Fiscal Years



Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1995	\$ 58,674,463	\$ 24,296,234	\$ 1,106,090	\$ 8,759,894	\$ 92,836,681
1996	57,394,804	25,567,685	971,499	9,061,432	92,995,420
1997	55,391,589	24,694,376	1,377,936	10,356,011	91,819,912
1998	54,400,689	22,365,484	2,139,131	8,981,803	87,887,107
1999	53,982,139	22,428,955	1,916,009	10,006,526	88,333,629
2000	56,450,869	15,541,026	2,639,293	9,857,197	84,488,385
2001	57,712,043	18,438,222	2,778,896	9,852,641	88,781,802
2002	61,650,177	22,773,687	1,859,416	9,554,569	95,837,849
2003	66,242,716	17,275,182	1,155,130	8,827,384	93,500,412
2004	74,539,634	24,273,579	1,266,240	8,954,873	109,034,326

Notes:

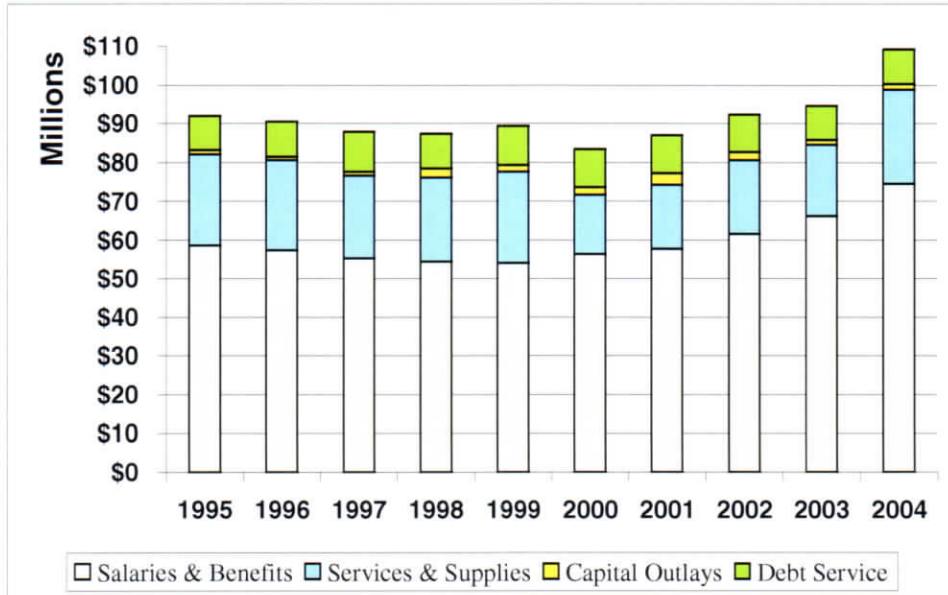
- The 2000 and 2002 variances in Debt Service between the Budgetary Basis and the GAAP Basis relate to prior-year encumbrances for lease payments on cargo vans.
- The increase in Salaries & Benefits between 2003 and 2004 is due to rising retirement rates.
- The increase in Services & Supplies between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

Source:

South Coast Air Quality Management District Audited Financial Statements

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

Last Ten Fiscal Years



Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1995	\$ 58,674,463	\$ 23,432,563	\$ 1,094,369	\$ 8,759,894	\$ 91,961,289
1996	57,394,804	23,121,644	962,396	9,061,432	90,540,276
1997	55,391,589	21,214,777	999,917	10,356,011	87,962,294
1998	54,400,689	21,702,940	2,353,895	8,981,803	87,439,327
1999	53,982,139	23,638,243	1,743,935	10,006,526	89,370,843
2000	56,450,869	15,238,185	1,914,777	9,811,596	83,415,427
2001	57,712,043	16,517,122	2,998,691	9,852,641	87,080,497
2002	61,650,177	18,967,367	2,142,659	9,597,224	92,357,427
2003	66,242,716	18,352,510	1,151,786	8,827,384	94,574,396
2004	74,539,634	24,245,021	1,490,545	8,954,873	109,230,073

Notes:

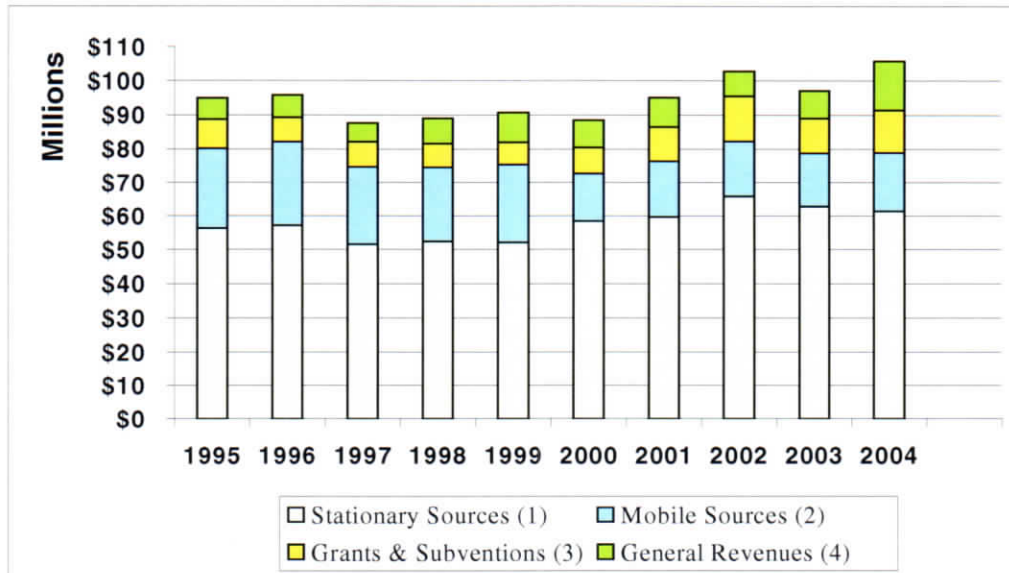
- The 2000 and 2002 variances in Debt Service between the Budgetary Basis and the GAAP Basis relate to prior-year encumbrances for lease payments on cargo vans.
- The increase in Salaries & Benefits between 2003 and 2004 is due to rising retirement rates.
- The increase in Services & Supplies between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

Source:

South Coast Air Quality Management District Audited Financial Statements

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
REVENUES BY MAJOR SOURCE
GENERAL FUND**

Last Ten Fiscal Years



Year	Stationary Sources (1)	Mobile Sources (2)	Grants & Subventions (3)	General Revenues (4)	Total Revenues
1995	\$ 56,309,661	\$ 23,790,303	\$ 8,750,276	\$ 6,242,214	\$ 95,092,454
1996	57,167,782	24,953,462	7,282,945	6,594,004	95,998,193
1997	51,675,393	22,903,017	7,562,549	5,510,088	87,651,047
1998	52,437,988	22,106,384	7,046,503	7,488,832	89,079,707
1999	52,179,703	23,259,971	6,500,145	8,884,650	90,824,469
2000	58,401,760	14,291,583	7,685,252	8,211,387	88,589,982
2001	59,741,735	16,520,766	10,271,201	8,672,885	95,206,587
2002	65,737,827	16,557,487	13,391,051	7,213,167	102,899,532
2003	62,835,710	15,866,701	10,400,508	8,145,097	97,248,016
2004	61,461,482	17,488,127	12,641,698	14,286,770	105,878,077

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

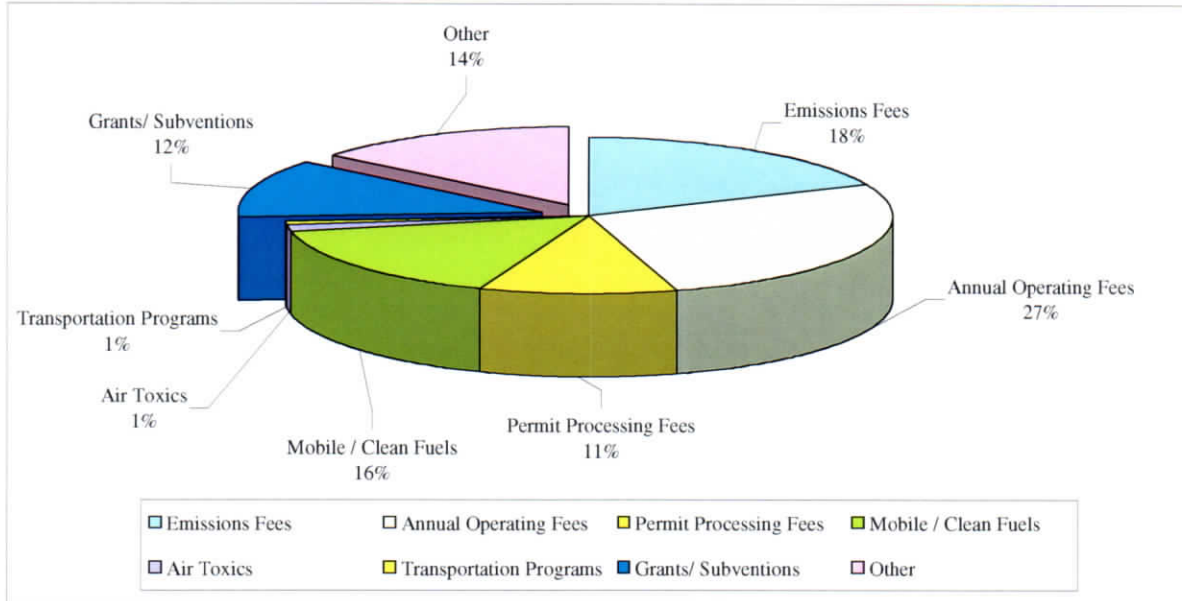
Notes:

- The decrease in Mobile Sources revenue in 2000 is due to the creation of a special Clean Fuels fund in September 1999 once the funding was re-authorized.
- The increase in 2001 and 2002 Grants & Subventions revenue relates to supplemental compliance grants and the increase in 2004 is associated with one-time Federal pass-through funds for the Green Airport Initiative.
- The increase in General Revenues in 2004 relates to a substantial penalty settlement.

Source:

South Coast Air Quality Management District Audited Financial Statements

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
REVENUES BY FEE SOURCE
GENERAL FUND
FY 2003-04**



Fee Source Revenue									
Year	Emissions Fees	Annual Operating Fees	Permit Processing Fees	Mobile / Clean Fuels	Air Toxics	Transportation Programs	Grants/ Subventions	Other	Total
1995	\$ 21,774,966	\$ 23,397,842	\$ 7,109,218	\$ 21,939,305	\$ 2,696,039	\$ 1,850,998	\$ 8,750,276	\$ 7,573,810	\$ 95,092,454
1996	24,177,360	22,860,880	7,595,763	22,636,795	1,729,752	2,316,667	7,282,945	7,398,031	95,998,193
1997	21,471,830	22,759,235	5,489,596	21,845,518	1,416,152	1,057,499	7,562,549	6,048,668	87,651,047
1998	21,497,065	22,539,400	6,379,855	21,504,225	1,372,438	602,159	7,046,503	8,138,062	89,079,707
1999	20,387,407	23,601,408	6,162,848	22,488,958	1,480,226	771,013	6,500,145	9,432,464	90,824,469
2000	24,755,365	23,127,214	8,925,225	13,574,215	1,033,004	717,368	7,685,252	8,772,339	88,589,982
2001	24,318,240	23,106,793	9,918,394	15,871,102	1,712,004	649,664	10,271,201	9,359,189	95,206,587
2002	23,542,903	26,192,638	13,961,148	15,892,754	1,413,000	664,733	13,391,051	7,841,305	102,899,532
2003	20,118,430	27,422,331	13,111,610	15,178,423	1,524,160	688,278	10,400,508	8,804,276	97,248,016
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

Notes:

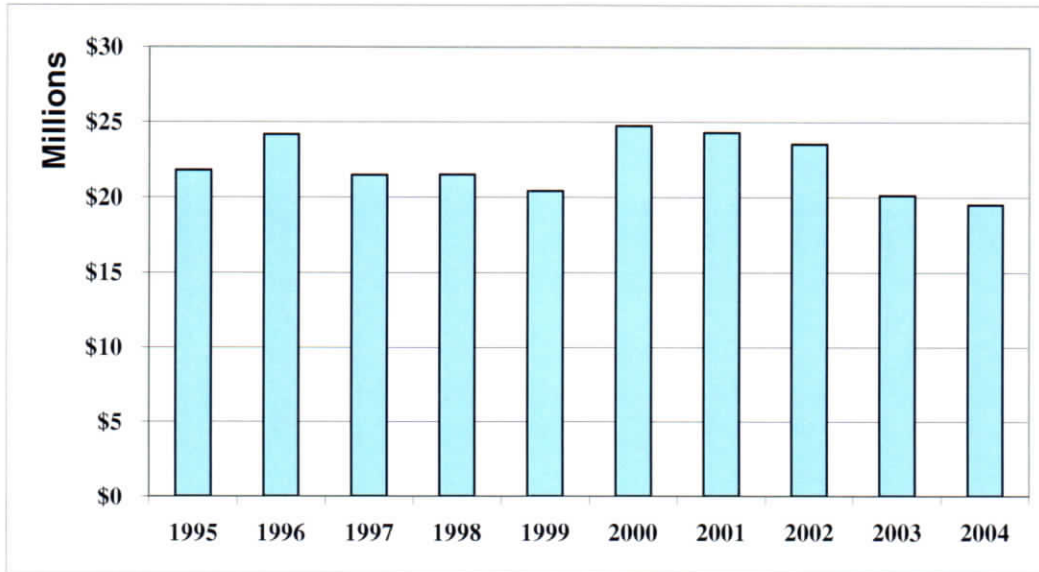
- Other includes Penalties and Settlements, Interest, Source Test/Analysis Fees, Lease Revenue, Hearing Board, Other Revenue and Subscriptions
- The increase in Other Revenues in 2004 relates to a substantial penalty settlement.

Source:

South Coast Air Quality Management District Audited Financial Statements

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT EMISSION FEE REVENUES

Last Ten Fiscal Years



Year	Emission Fees
1995	\$ 21,774,966
1996	24,177,360
1997	21,471,830
1998	21,497,065
1999	20,387,407
2000	24,755,365
2001	24,318,240
2002	23,542,903
2003	20,118,430
2004	19,497,850

Source: South Coast Air Quality Management District Audited Financial Statements

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

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

Measuring 4,084 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.

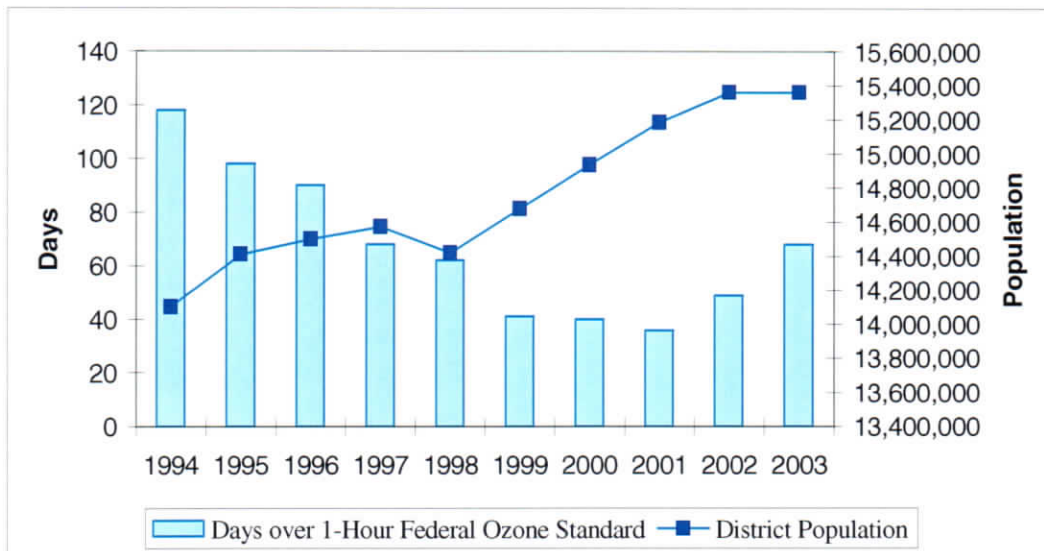
Orange County is the second most populated county in the state and lies south of Los Angeles County. When created in 1889, Orange County was named for its abundance of orange groves and thriving agricultural industry. Today, the largest industry employers are trade, transportation, and utilities, professional 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 the 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
SOUTH COAST AIR BASIN SMOG TREND
Last Ten Calendar Years**



Year	Days over 1-Hour Federal Ozone Standard	District Population
1994	118	14,100,990
1995	98	14,410,318
1996	90	14,497,361
1997	68	14,570,394
1998	62	14,418,809
1999	41	14,676,671
2000	40	14,934,529
2001	36	15,184,359
2002	49	15,362,284
2003	68	15,362,284

Notes:

- The average number of days in the Basin exceeding the federal standard over the three-year period of 1999-01 decreased by 80% for ozone and by 97% for carbon monoxide from the 1976-78 period.
- The average number of days in the Basin exceeding the federal PM10 standard decreased by 86% between the 1985-87 and 1999-01 periods.

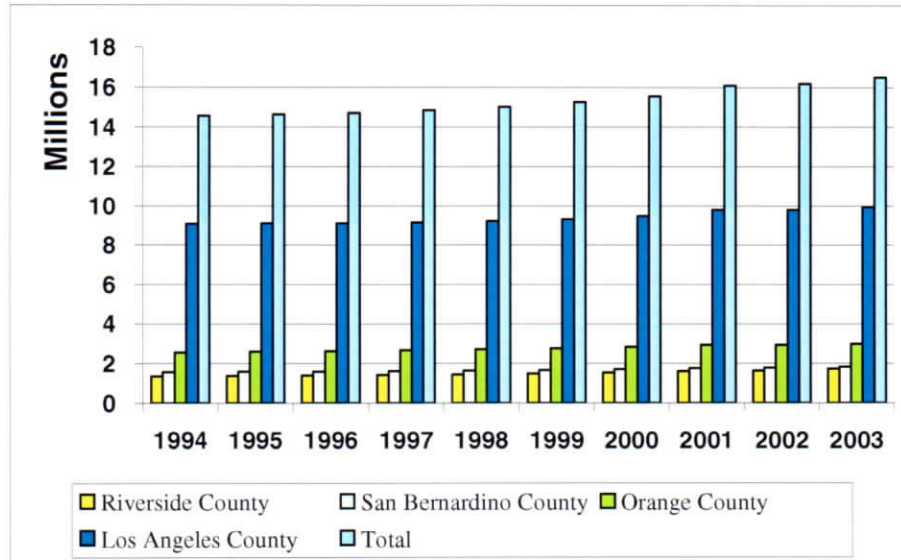
Sources:

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

FOUR-COUNTY AREA POPULATION

Last Ten Calendar Years



Year	Riverside County	San Bernardino County	Orange County	Los Angeles County	Total	% Increase
1994	1,340,200	1,561,900	2,563,100	9,095,200	14,560,400	0.68%
1995	1,365,500	1,573,900	2,590,100	9,103,900	14,633,400	0.50%
1996	1,391,800	1,590,800	2,625,300	9,104,700	14,712,600	0.54%
1997	1,420,600	1,613,500	2,672,800	9,147,100	14,854,000	0.96%
1998	1,451,400	1,637,900	2,724,500	9,225,800	15,039,600	1.25%
1999	1,490,500	1,666,600	2,776,100	9,330,100	15,263,300	1.49%
2000	1,533,800	1,701,700	2,829,800	9,487,400	15,552,700	1.90%
2001	1,609,400	1,764,300	2,925,700	9,802,800	16,102,200	3.53%
2002	1,645,300	1,788,500	2,930,500	9,817,400	16,181,700	0.49%
2003	1,719,000	1,842,100	2,975,400	9,966,200	16,502,700	1.98%

Notes:

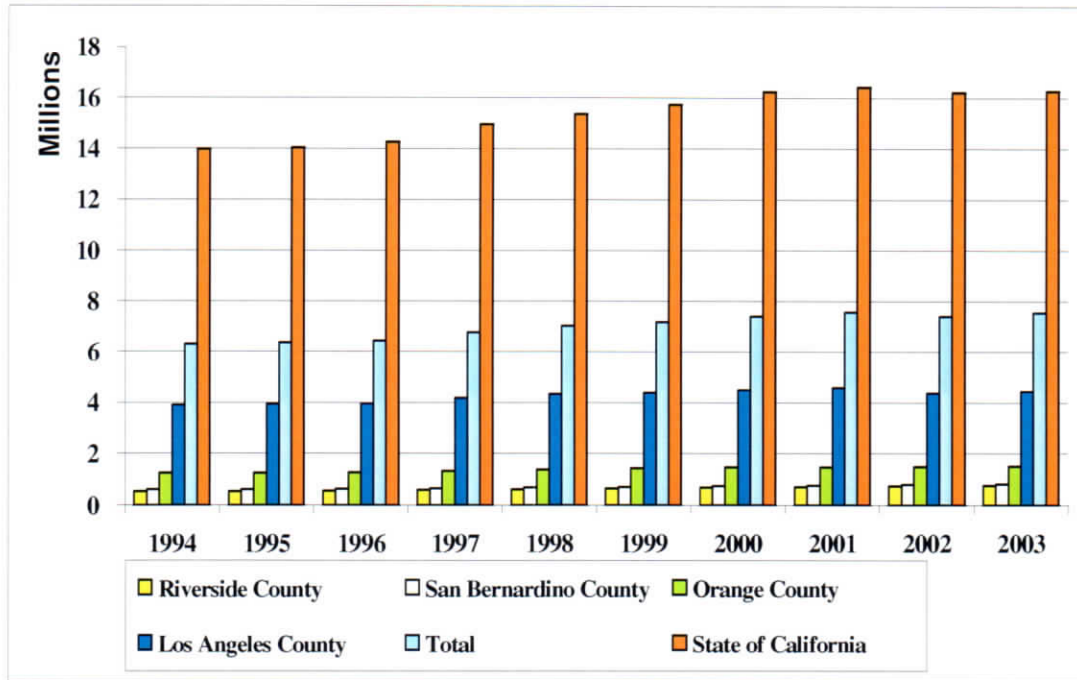
- The AQMD encompasses all of Orange County and parts of the Los Angeles, Riverside, and San Bernardino Counties, representing over 15 million residents.

Source:

California Department of Finance - Demographic Research Unit

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

Last Ten Calendar Years



Year	San				Total	State of California
	Riverside County	Bernardino County	Orange County	Los Angeles County		
1994	535,400	614,500	1,260,900	3,897,300	6,308,100	13,979,200
1995	548,700	621,200	1,251,700	3,938,500	6,360,100	14,040,100
1996	561,400	632,400	1,276,600	3,956,400	6,426,800	14,261,300
1997	594,800	664,400	1,339,900	4,184,800	6,783,900	14,942,500
1998	619,600	684,200	1,393,700	4,343,300	7,040,800	15,367,500
1999	658,500	718,000	1,432,700	4,389,300	7,198,500	15,731,700
2000	690,000	752,400	1,472,700	4,506,100	7,421,200	16,245,600
2001	711,500	775,800	1,490,800	4,598,200	7,576,300	16,435,200
2002	745,200	804,100	1,495,100	4,378,100	7,422,500	16,241,800
2003	768,100	820,600	1,515,900	4,451,700	7,556,300	16,282,700

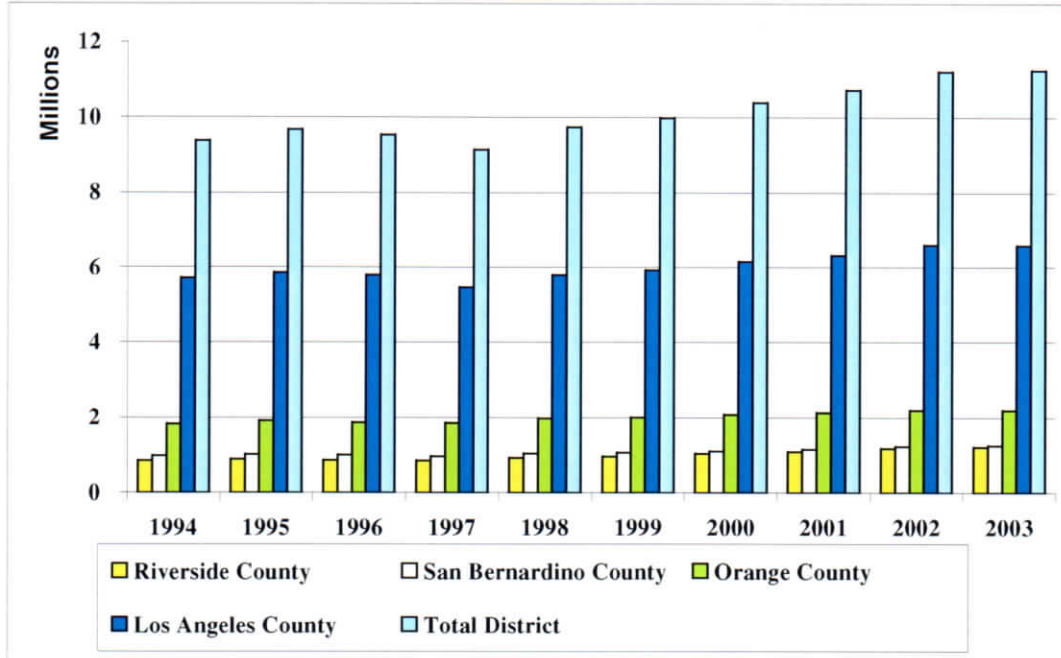
Sources:

- South Coast Air Quality Management District Building Corporation Installment Sale Revenue Bonds Refunding Series 2002 and the State of California Employment Development Department

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

PAID VEHICLE REGISTRATIONS (Automobiles & Trucks) FOR FOUR COUNTY AREA

Last Ten Calendar Years



Year	Riverside County	San Bernardino	Orange County	Los Angeles County	Total District
1994	852,912	987,191	1,836,104	5,717,373	9,393,580
1995	891,894	1,020,972	1,917,597	5,853,340	9,683,803
1996	873,251	1,007,310	1,874,855	5,791,836	9,547,252
1997	854,963	971,743	1,850,067	5,474,649	9,151,422
1998	928,902	1,040,583	1,983,612	5,796,505	9,749,602
1999	972,920	1,070,746	2,019,066	5,926,920	9,989,652
2000	1,038,067	1,118,158	2,091,397	6,155,565	10,403,187
2001	1,100,221	1,168,442	2,140,909	6,323,102	10,732,674
2002	1,182,492	1,238,451	2,207,172	6,595,178	11,223,293
2003	1,221,720	1,266,233	2,196,060	6,578,648	11,262,661

Notes:

- The AQMD encompasses all of Orange County, and parts of Los Angeles, Riverside, and San Bernardino Counties. Paid vehicle registrations within the AQMD jurisdiction is approximately 11 million for 2003.

Source:

California Department of Motor Vehicles

South Coast Air Quality Management District

Demographic and Miscellaneous Statistics

<u>Established:</u>	February 1, 1977
<u>Area Covered:</u>	10,743 Square Miles
<u>Counties Included in District:</u>	All of Orange County and parts of Los Angeles, Riverside, and San Bernardino Counties
<u>Population:</u>	15,362,284 (In 2003)
<u>Transportation:</u>	Two transcontinental railroads – Burlington Northern Santa Fe and the Union Pacific Six Commercial Airports – Los Angeles International, Burbank, Long Beach, Ontario International, Orange County, and Palm Springs Freeways – Three major interstate freeways including four bypass routes, U.S. 101, and nine State freeway routes Two major adjoining ports – Port of Long Beach and Port of Los Angeles
<u>Visitor Destinations:</u>	Disneyland, Knott's Berry Farm, Magic Mountain, motion picture and television studios and the Rose Bowl
<u>Number of Registered Vehicles:</u>	11,084,658 (In 2003)
<u>Average Daily Vehicle Miles Traveled:</u>	32
<u>Examples of Stationary Sources of Air Pollution Regulated:</u>	Oil Refineries, power plants, paint spray booths, incinerators, manufacturing facilities, dry cleaners, and service stations
<u>Number of Sources:</u>	Over 27,000 operating locations with approximately 78,000 permits.
<u>Number of Air Monitoring Stations:</u>	34
<u>SCAQMD Full-time Authorized Positions:</u>	798
<u>Adopted FY 2004-05 Budget:</u>	\$102,347,831
<u>Key Federal, State, and Local Air Agencies:</u>	EPA Region IX (Environmental Protection Agency), CARB (California Air Resources Board), CAPCOA (California Air Pollution Control Officer's Association), STAPPA (State and Territorial Air Pollution Program Administrators), ALAPCO (Association of Local Air Pollution Control Officials). There are 35 local air pollution control districts in California.

Key Historical Dates in Southland Smog Control

- **1945** City of Los Angeles establishes Bureau of Smoke Control.
- **1947** Governor Earl Warren signs AB 1, allowing county air pollution control districts (APCD). L.A. County establishes APCD requiring permits for all major industries.
- **1950** Orange County APCD established.
- **1953** Los Angeles launches nation's first "smoke school" to control visible emissions.
- **1955** Highest ozone level ever recorded in Southland - .68 parts per million.
- **1955** Los Angeles APCD launches Smog Emergency Warning System.
- **1956** Los Angeles establishes first air quality monitoring network of 15 stations.
- **1957** San Bernardino and Riverside County APCDs formed.
- **1963** First Federal Clean Air Act enacted.
- **1967** California Air Resources Board (CARB) created. Federal Air Quality Act allows California to set and enforce more stringent auto standards than the rest of the nation.
- **1969** First state ambient air quality standards enacted.
- **1970** U.S. Environmental Protection Agency created. In 1970 the Federal Clean Air Act becomes a cornerstone of modern air pollution control.
- **1977 South Coast Air Quality Management District formed through merger of Los Angeles, Orange, Riverside, and San Bernardino APCDs.**
- **1984** California's Smog Check program takes effect.
- **1987** AQMD establishes ridesharing requirements for region's employers.
- **1988** California Clean Air Act adopted. Last Stage 2 episode recorded.
- **1989** AQMD adopts first Air Quality Management Plan (AQMP) to show attainment of clean air standards.
- **1990** Federal Clean Air Act Amendments require new programs for smog, toxics and protection of the Earth's ozone layer.
- **1993** RECLAIM (REgional CLean Air Incentives Market) emissions trading program adopted.
- **1997** AQMD adopts Environmental Justice Initiatives.
- **1998** Multiple Air Toxics Exposure Study, largest of its kind in the nation, launched.
- **2000** AQMD adopts Air Toxics Control Plan and first series of Clean Fleet Rules.
- **2001** AQMD implements the State's Lower Emission School Bus Program.
- **2002** AQMD adopts phase-out of toxic chemical at dry cleaners.



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Air Quality Management District**

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