

*South Coast
Air Quality
Management District*

**Comprehensive Annual
Financial Report**
Year Ended June 30, 2002





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, 2002

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Comprehensive Annual Financial Report
Year Ended June 30, 2002

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SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

GOVERNING BOARD

NORMA J. GLOVER

Chairman

County of Orange

Cities Representative

WILLIAM A. BURKE, Ed.D.

Vice-Chairman

Speaker of the Assembly Appointee

MICHAEL D. ANTONOVICH

County of Los Angeles Representative

JON D. MIKELS

County of San Bernardino Representative

HAL BERNSON

County of Los Angeles

Cities Representative

Western Region

LEONARD PAULITZ

County of San Bernardino

Cities Representative

JANE CARNEY

Senate Rules Committee Appointee

JAMES W. SILVA

County of Orange Representative

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

S. ROY WILSON, Ed.D.

County of Riverside Representative

BARRY R. WALLERSTEIN, D.Env.

Executive Officer



South Coast Air Quality Management District

21865 E. Copley Drive, Diamond Bar, CA 91765-4182
(909) 396-2000 • www.aqmd.gov

November 5, 2002

Governing Board
South Coast Air Quality Management District

This is the first Comprehensive Annual Financial Report (CAFR) of the South Coast Air Quality Management District (AQMD) using the new reporting requirements as prescribed by the Governmental Accounting Standards Board (GASB) Statement 34. This report is for the fiscal year ended June 30, 2002 and was prepared by the AQMD's Finance Office. Responsibility for the accuracy of the data, the completeness and fairness of the presentation, including all disclosures, rests with the AQMD. To the best of our knowledge and belief, the enclosed data is accurate in all material respects, reported in a manner designed to present fairly the financial position and results of operations of the various funds and all disclosures necessary to enable the reader to gain an understanding of the AQMD's financial activities.

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

MAJOR CHANGES IN REPORTING

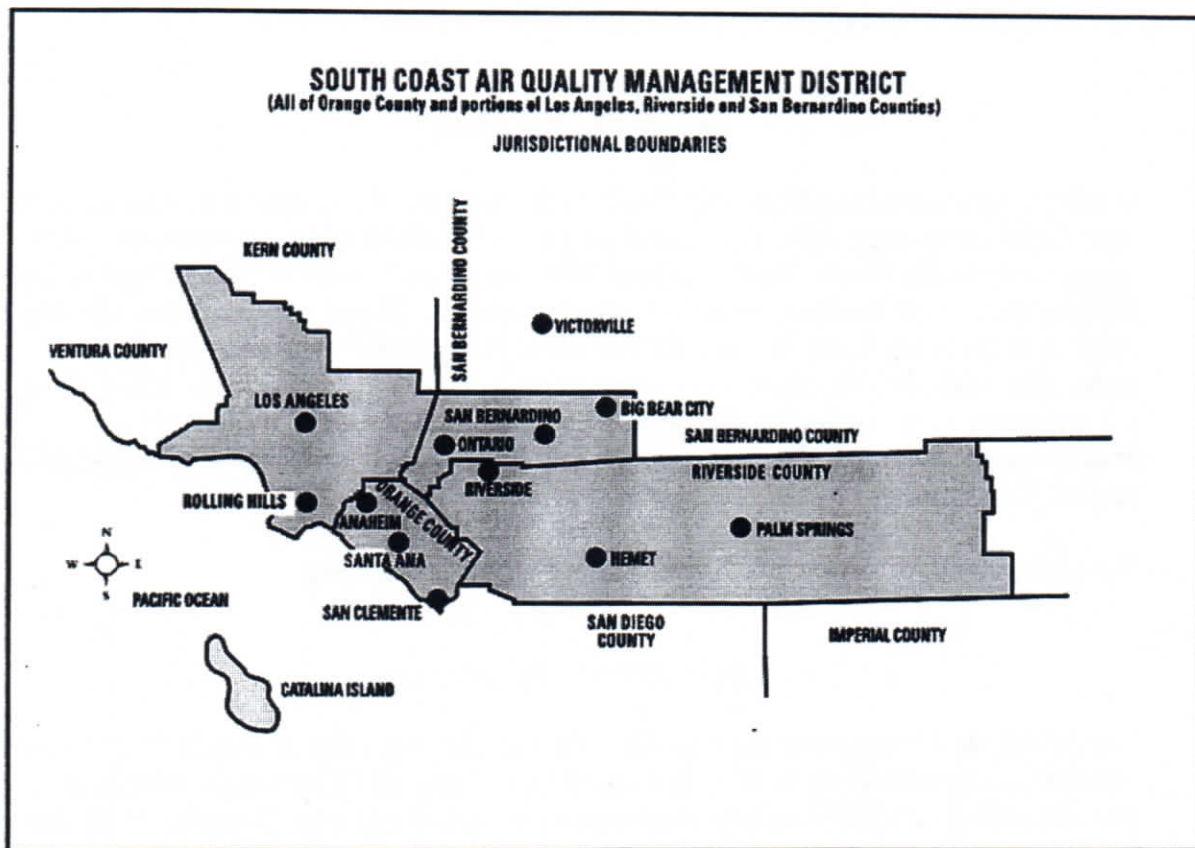
The AQMD financial statements represent a substantial change from the prior year's format and accounting methodology. In June 1999, the Governmental Accounting Standards Board (GASB) which sets the financial reporting rules, "Generally Accepted Accounting Principles" (GAAP) for all state and local governments established a new framework for financial reporting. This new framework represents the single most significant change in the history of governmental accounting. These changes are issued under GASB Statement No. 34: *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. These changes are required

to be implemented during a three year period based on the size of the entity. The AQMD was required to implement these changes by June 30, 2002.

GASB 34 established two bases for reporting financial information: government-wide financial statements and fund financial statements. The government-wide financial statements reflect the economic resources measurement focus and accrual basis of accounting (essentially the commercial accounting financial reporting model) for both governmental and business-type activities. The basis for preparing fund financial statements is similar to conventional governmental financial statements except the focus for presentation is on major funds rather than fund types. In the financial section of this report, the reader is provided with reconciliation statements that will take the reader from the Fund Financial Statement to the Statement of Net Assets and Activities. Capital assets and depreciation charges are reported on the government-wide financial statements. The management's discussion and analysis information precedes the basic financial statements. This is required supplementary information. As an option, AQMD reports the budgetary comparison as required supplementary information rather than as basic governmental fund financial statements.

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 2001, the federal air quality standards were exceeded on 36 days for ozone and on 4% of the days sampled for fine particulate matter (≤ 10 microns) (PM_{10}).

Despite these high levels, the air quality in the South Coast Air Basin has improved dramatically since the late 1970s. The average number of days in the Basin exceeding the federal standard over the three-year period of 1999-2001 decreased by 80% for ozone and by 97% 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 1999-2001 periods. There have been no days on which the federal nitrogen dioxide standard has been exceeded since 1991 and the more stringent state standard was not exceeded in 2001. While economic and meteorological factors have contributed to this trend, most of the air quality improvements can be attributed to control strategies implemented by the AQMD and the State. The AQMD's regulatory program, in conjunction with State and federal

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

REPORTING ENTITY

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

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

ECONOMIC CONDITIONS

The AQMD is a fee-supported agency and does not receive sales or property tax support. Approximately 64% of its funding is derived from fees paid by stationary sources that emit air pollution; 16% from auto registration fees collected by the Department of Motor Vehicles and distributed to air districts throughout the State in support of motor vehicle emission reduction programs; 13% from federal and State grants and subventions; and the remainder from general revenues such as penalties/settlements, lease revenue and interest earnings.

To meet its program commitments, despite new federal and State mandates and increased workload complexity, the AQMD has successfully streamlined many of its operations reducing the cost of its programs. Compared to 1992-93 fiscal year, this year's expenditures reflect staffing and expenditure levels that are 30.3% (352 FTEs) and 10.1% (\$10.4 million) below 1992-93 levels. When adjusted for inflation, this year's expenditures are 30% less than the 1992-93 period.

This year's revenues and expenditures represent both significant expenditure savings as a result of higher vacancy rates (5+%), deferred contract and capital equipment expenditures, and revenues which exceeded estimates due to increased permit processing activity and larger emission fee payments (reflecting increased emissions during the energy crisis). While the AQMD does not recover its activity costs fully from fees, additional support in the form of a State subvention and federal grants, and additional general revenues offset the shortfall. Beginning in FY 2001-02, the AQMD implemented several permit fee adjustments to more closely recover its program costs. Due to the States current and projected budget deficit, one third of its support to local air districts (\$2.1 million for the AQMD) has been cut in FY 2002-03, with future cuts expected. The expenditure savings in FY 2001-02 have increased AQMD's unreserved fund balance,

providing a means of mitigating the short-term loss in State funding. Future budgets will detail a plan to further reduce expenditures to offset the long-term loss in State support.

OUTLOOK FOR THE FUTURE

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

During the next year and beyond, the AQMD will continue to develop control measures to reduce smog-forming and toxic air pollutants; update its plan for achieving federal air quality standards; continue to implement its Environmental Justice Initiatives and Strategic Alliance Initiatives and pursue its legislative goals.

Air Quality Management Plan

AQMD is now developing its 2003 Air Quality Management Plan to show attainment of federal ozone and PM₁₀ standards by 2010 and 2006 respectively. One proposed measure will be additional emission reductions from the approximately 350 facilities in RECLAIM (REgional CLean Air Incentives Market), the region's innovative "cap-and-trade" emissions credit trading program.

New Ozone Standard

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

Special Initiatives

Next year, AQMD will continue work on two programs introduced this year by the Governing Board Chairman and adopted by AQMD's Board. One of the eight Strategic Alliance Initiatives adopted created a California Natural Gas Vehicle Partnership, which calls for placing more than 700,000 natural-gas powered vehicles on the road nationwide in the next ten years.

AQMD also will continue work next year on 23 enhancements to AQMD's Environmental Justice Initiatives, including the development of a rule to reduce diesel emissions from off-road trucks such as yard hostlers used to move cargo containers at the ports, railroad yards and warehouse distribution centers.

Legislative Agenda

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

guarding against large state air pollution fee increases for businesses.

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, 2002, was conducted by Simpson and Simpson, CPA. 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, 2002, 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.

In 2000, as part of its financial systems conversion, the AQMD contracted for an independent evaluation by an outside audit firm to test its new financial system and procedures and make recommendations where necessary.

Budgetary Control

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, 2002 is \$264,133,630.

The AQMD Governing Board annually reviews and approves its investment policy and the appointment of its treasurer. Monthly investment reports are submitted by the Chief Financial Officer to the Governing Board detailing investment activities and portfolio balances. Quarterly reports are submitted to the Governing Board, Investment Oversight

Committee and auditor. The primary objective of the AQMD's investment policy is to ensure money in the Treasury not required for the immediate needs of AQMD are prudently invested to preserve principal and provide necessary liquidity, while earning a market average rate of return.

Risk Management

AQMD manages its risks of property and liability losses through a combination of commercial insurance and self-insurance programs. Commercial insurance coverages are obtained with assistance from a large brokerage firm, Aon Risk Services. AQMD maintains all risk property coverage with replacement cost valuation for insurable values of approximately \$130,000,000. Difference in conditions coverages (earthquake and flood) has limits of \$25,000,000.

AQMD has been self-insured since June 1, 1986 for workers' compensation, general liability, and automobile liability claims. AQMD utilizes the services of a state-certified third-party claims administrator to manage claims with a dedicated claims examiner. General and automobile liability claims are also handled by a third-party administrator. Due to the unpredictability of judgments in workers' compensation or liability claims, AQMD also maintains excess liability coverages over self-insured retentions for individual workers' compensation claims in excess of \$350,000, 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 (GFOA) offers a Certificate of Achievement for Excellence in Financial Reporting to governmental agencies for their Comprehensive Annual Financial Report. 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 conforms to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

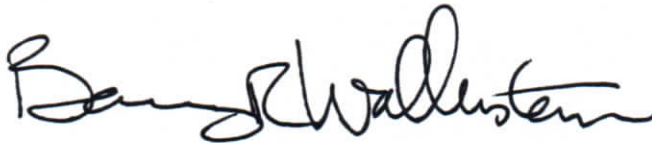
Acknowledgments

The preparation of our first comprehensive annual financial report was made possible by the dedicated services of the accountant, financial analyst and management staff of the Finance Office, with a special acknowledgment to our Controller, Lisa Virgo. These

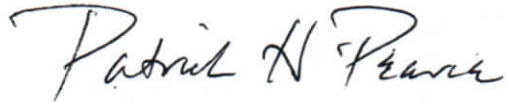
members have our sincere appreciation for the contribution made in the preparation of this report.

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

Respectively submitted,

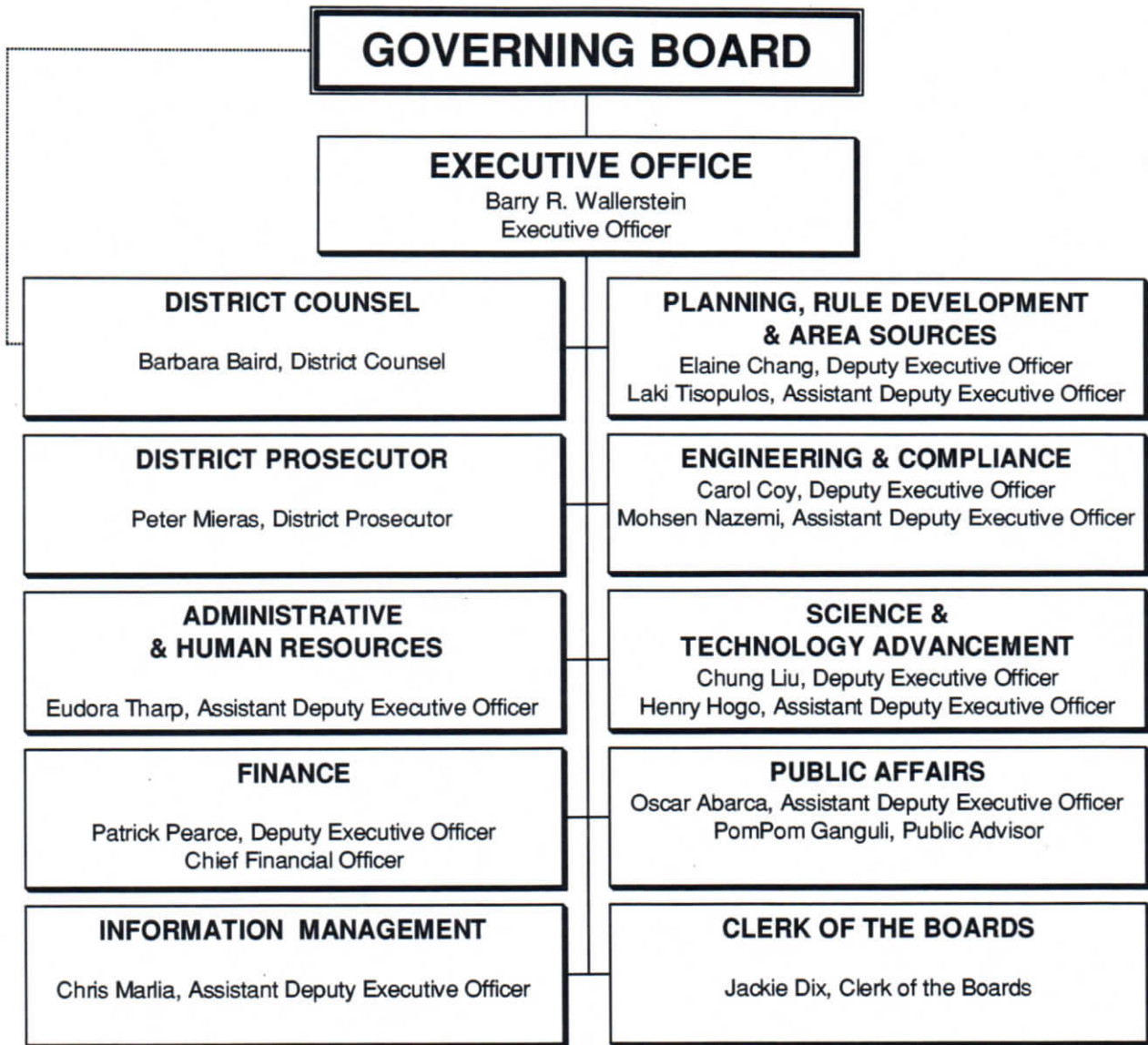


Barry R. Wallerstein, D.Env.
Executive Officer



Patrick H. Pearce
Chief Financial Officer

South Coast Air Quality Management District



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of South Coast Air Quality Management District (AQMD) as of and for the fiscal year ended June 30, 2002, 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 management of the AQMD. Our responsibility is to express an opinion 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 and each major fund of the AQMD as of June 30, 2002, and the respective changes in financial position thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the AQMD adopted the provisions of the Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus and GASB Statement No. 38, Certain Financial Statement Note Disclosures as of July 1, 2001.

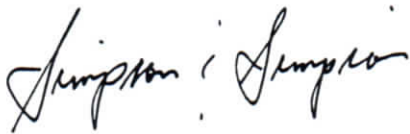
In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2002 on our consideration of the AQMD's internal control structure and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) and the required supplementary information other than MD&A, as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by GASB. Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise of the AQMD's basic financial statements. We have applied certain limited

procedures, which 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.

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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is 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 basic financial statements and accordingly, we express no opinion on them.



October 18, 2002
Los Angeles, California

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

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, 2002. Please read it in conjunction with the transmittal letter and the basic financial statements.

A. Financial Highlights

- The assets of the AQMD exceeded its liabilities at the close of the most recent fiscal year by \$220,371,117 (*net assets*). Of this amount, \$3,617,796 (*unrestricted net assets*) may be used to finance the AQMD's day-to-day operations without constraints established by legal requirements.
- As of the close of the fiscal year, the AQMD's governmental funds reported combined fund balances of \$256,044,594. Of this amount, \$44,120,390 represents the fund balance of the General Fund.
- Out of the total General Fund balance of \$44,120,390 at the end of the fiscal year, \$34,425,246 represents the unreserved fund balance of which \$9,341,061 represents designated uses. The remaining undesignated balance of \$25,084,185 represents 24 percent of General Fund revenues.
- The AQMD adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, effective July 1, 2001. This is the first year that the AQMD is implementing the standards. The GASB requires that the governmental agencies provide two years of financial information so that the reader will be able to draw comparisons on the results of operations and the financial position from year to year. Recognizing the additional efforts required under these new reporting requirements, GASB has allowed governmental agencies the option of reporting only a single year of information in the first year of implementation. The AQMD has exercised this one-year option. Accordingly, this year's Management's Discussion & Analysis (MD&A) will not reflect prior year's data; condensed comparative information is not reported at this time.

B. Overview of the Financial Statements

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

In general, the purpose of financial reporting is to provide the external parties that read financial statements with information that will help them make decisions or draw conclusions

about an entity. In order to address the needs of as many parties as reasonably possible, the AQMD, in accordance with required reporting standards, presents government-wide financial statements and fund financial statements.

Government-wide Financial Statements

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

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

The Statement of Net Assets reports all assets held and liabilities owed by the AQMD on a full accrual basis. The difference between the two is reported as *net assets*. This difference is comparable to the total stockholders' equity presented by a commercial enterprise. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the AQMD is improving or deteriorating.

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

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

The AQMD's government-wide financial statements are presented on pages 18 to 20.

Fund Financial Statements

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

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

Governmental Funds

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

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

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

The operating statements for governmental funds report only those revenues and expenditures that were collected in cash or paid with cash during the current period or very shortly after the end of the year.

The focus of the fund financial statements is narrower than that of the government-wide financial statements. Since different accounting bases are used to prepare the above statements, a reconciliation is required to facilitate the comparison between the fund statements and the government-wide statements. The reconciliation between the total fund balances can be found on page 22.

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

The AQMD maintains 18 individual special revenue funds in addition to the general fund. Six 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 12 non-major special revenue funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is reported in the other supplementary information section of this report.

Proprietary Funds

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

The AQMD's proprietary fund financial statements for the Clean Air Store and the Compressed Natural Gas (CNG) Fueling Station are presented on pages 25 to 27.

Fiduciary Funds

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

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found in pages 30 to 50 of this report.

Required and Other Supplementary Information

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

C. Government-wide Financial Analysis

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

The following schedule lists a condensed Statement of Net Assets as of June 30, 2002. In future years, this schedule will contain a current-to-previous year comparison.

Net Assets
(In Thousands)

	Governmental Activities <u>FY 2001-02</u>	Business-Type Activities <u>FY 2001-02</u>	Total <u>FY 2001-02</u>
Current and Other Assets	\$287,406	\$ 41	\$287,447
Capital Assets	<u>66,819</u>	<u>-</u>	<u>66,819</u>
Total Assets	<u>\$354,225</u>	\$ <u>41</u>	<u>\$354,266</u>
Long-term Liabilities Outstanding	\$101,591	\$ -	\$101,591
Other Liabilities	<u>32,304</u>	<u>-</u>	<u>32,304</u>
Total Liabilities	<u>\$133,895</u>	\$ <u>-</u>	<u>\$133,895</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 4,829	\$ -	\$ 4,829
Restricted	211,924	-	211,924
Unrestricted	<u>3,577</u>	<u>41</u>	<u>3,618</u>
Total Net Assets	<u>\$220,330</u>	\$ <u>41</u>	<u>\$220,371</u>

As noted earlier, net assets may serve over time as a useful indicator of the AQMD's financial position. At the close of the most recent fiscal year, the AQMD's assets exceeded liabilities by \$220,371,117.

The largest portion of the AQMD's net assets (96 percent) is restricted. The specific revenue sources in special revenue funds are restricted to expenditures for specific purposes. Two percent of the AQMD's net assets reflect its investment in capital assets used by AQMD (e.g. land, buildings, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding. The AQMD uses these capital assets in carrying out its mission of protecting public health while being sensitive to the economic needs of local businesses. Consequently, these assets are not available for future spending. Although the AQMD's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining portion of the AQMD's net assets (2 percent) is unrestricted and may be used to meet the AQMD's ongoing obligations in carrying out day-to-day operations.

Out of the \$220,371,117 net assets, \$40,714 represented the net assets from business-type activities.

The following schedule lists a condensed Changes in Net Assets for the fiscal year ending June 30, 2002. In future years, this chart will contain a current-to-previous year comparison.

**Changes in Net Assets
(In Thousands)**

	Governmental Activities <u>FY 2001-02</u>	Business-Type Activities <u>FY 2001-02</u>	TOTAL <u>FY 2001-02</u>
Revenues:			
Program Revenues:			
Fees and charges - Stationary Sources	\$ 65,738	\$ -	\$ 65,738
Fees and Charges - Mobile Sources	10,272	-	10,272
Operating Grants and Subventions	10,434	-	10,434
Restricted Special Revenue Sources	118,892	-	118,892
Merchandise Sales	-	1	1
General Revenues:			
Grants and Subventions – Not Restricted to Specific Programs	2,957	-	2,957
Mobile Sources – not restricted to Specific Programs	6,285	-	6,285
Penalties and Settlements	4,560	-	4,560
Interest	1,606	-	1,606
Other Revenues	<u>1,047</u>	<u>-</u>	<u>1,047</u>
Total Revenues	\$ <u>221,791</u>	\$ <u>1</u>	\$ <u>221,792</u>
Expenses:			
Advance Clean Air Technology	4,484	-	4,484
Ensure Compliance with Clean Air Rules	32,781	-	32,781
Customer Service	9,491	-	9,491
Develop Programs to Achieve Clean air	5,618	-	5,618
Develop Rules to Achieve Clean Air	6,574	-	6,574
Monitoring Air Quality	9,828	-	9,828
Permit Review	20,573	-	20,573
Policy Support	2,226	-	2,226
Special Funds Activities	82,813	-	82,813
Other Expenses	<u>-</u>	<u>2</u>	<u>2</u>
Total Expenses	<u>174,388</u>	<u>2</u>	<u>174,390</u>
Increase in Net Assets Before Transfers	47,403	(1)	47,402
Transfers	<u>(25)</u>	<u>25</u>	<u>-</u>
Increase (Decrease) in Net Assets, June 30, 2002	\$ <u>47,378</u>	\$ <u>24</u>	\$ <u>47,402</u>

Governmental and Business-Type 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 2001-02. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

The Statement of Activities distinguishes governmental activities from business type activities. Governmental functions of the AQMD are predominantly supported by fees, grants, state subvention, penalties, and settlements. The primary governmental activities of the AQMD include the following: Advance Clean Air Technology, Ensure Compliance with Clean Air Rules, Customer Service, Develop Programs to Achieve Clean Air, Develop Rules to Achieve Clean Air, Monitoring Air Quality, Permit Review, Policy Support and Special Funds which are restricted to programs for specific purposes.

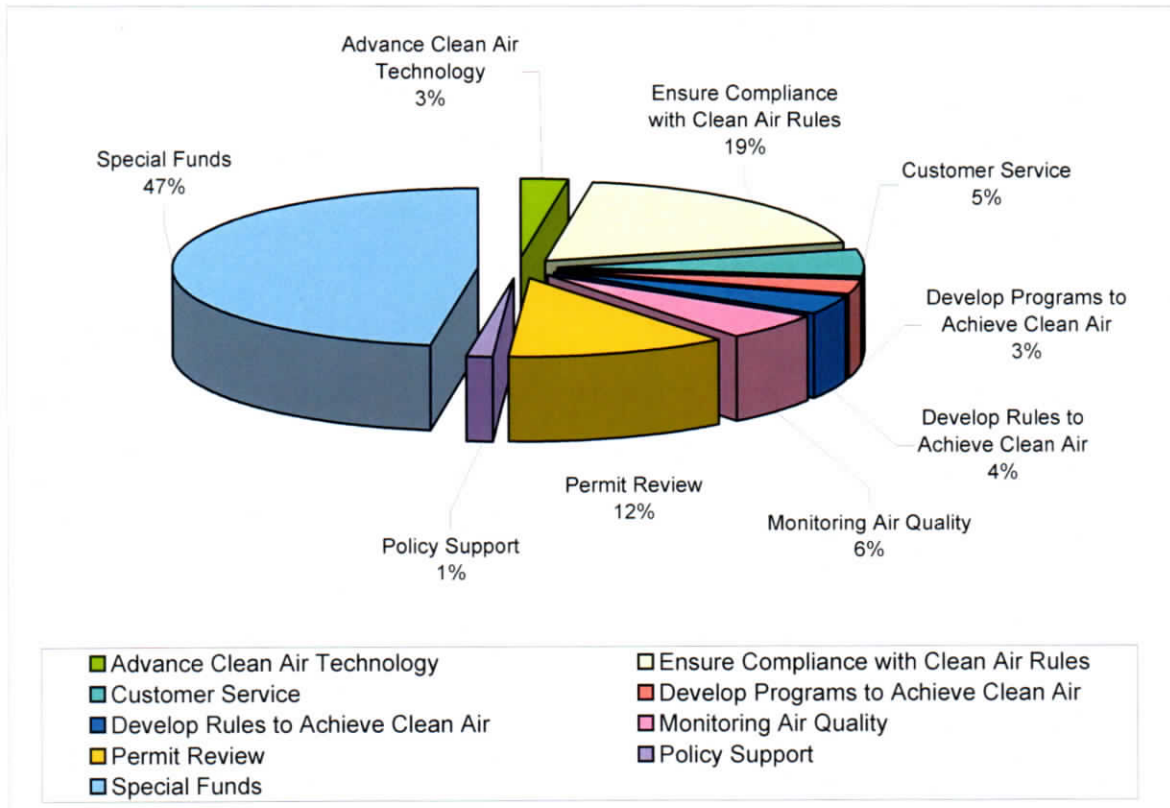
The business-type activities section reports transactions relating to the Clean Air Store and the Compressed Natural Gas (CNG) fueling station. The Clean Air Store expenditures are reported on a cash basis and are offset by merchandise sales. Currently, AQMD is completing the construction of a CNG fueling station at its headquarters. This business-type activity reports funding received during FY 2001-02 to offset future maintenance and management services.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

EXPENSES BY ACTIVITY

Governmental Activities

FY 2001-02



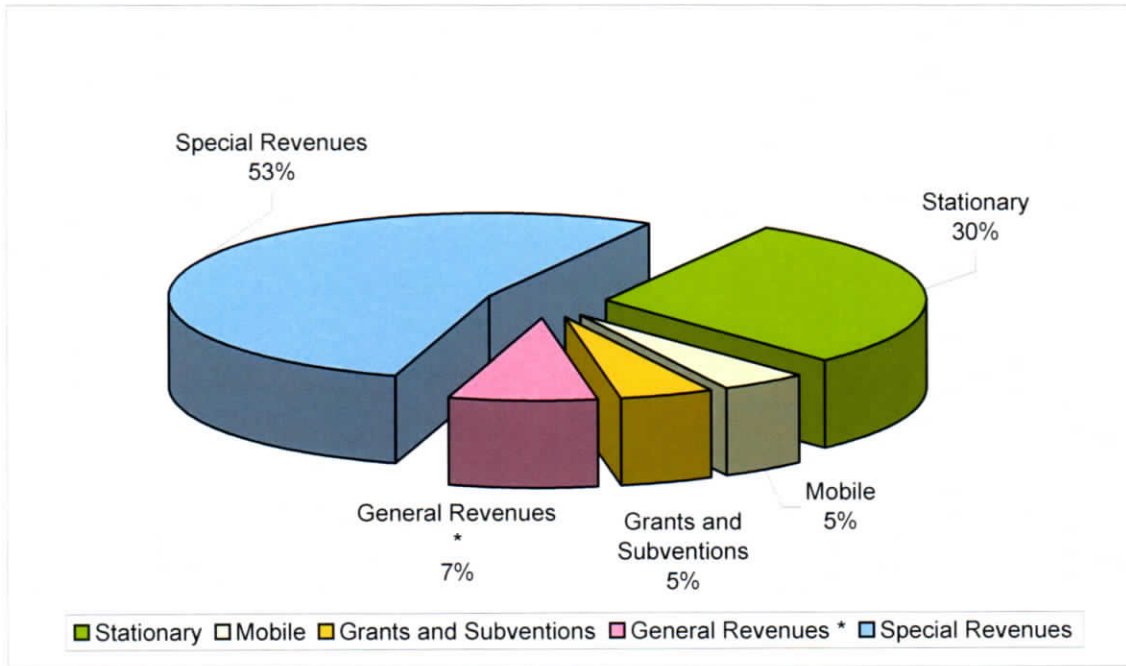
Activity	Expenses
Advance Clean Air Technology	\$4,484,278
Ensure Compliance with Clean Air Rules	32,780,500
Customer Service	9,491,294
Develop Programs to Achieve Clean Air	5,618,177
Develop Rules to Achieve Clean Air	6,574,206
Monitoring Air Quality	9,827,518
Permit Review	20,572,771
Policy Support	2,226,376
Special Funds	82,812,501
Total	\$174,387,621

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

REVENUES BY MAJOR SOURCE

Governmental Activities

FY 2001-02



Source	Revenue
Stationary	\$65,737,827
Mobile	10,272,434
Grants and Subventions	10,434,312
General Revenues *	16,429,959
Special Revenues	118,891,866
Total	\$221,766,398

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

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

GOVERNMENTAL ACTIVITIES

Net (Expense) Revenue (In Thousands)

FY 2001-2002

	<u>Total Cost of Work Program Activities</u>	<u>Net Cost of Work Program Activities</u>
Advance Clean Air Technology	\$ 4,484	\$ 822
Ensure Compliance with Clean Air Rules	32,781	(117)
Customer Service	9,491	(1,310)
Develop Programs to Achieve Clean Air	5,618	(677)
Develop Rules to Achieve Clean Air	6,574	(1,087)
Monitoring Air Quality	9,828	(1,137)
Permit Review	20,573	(1,230)
Policy Support	2,226	(394)
Special Funds Activities	<u>82,813</u>	<u>36,079</u>
Total	<u>\$174,388</u>	<u>\$30,949</u>

Revenues for special fund activities and advancement of clean air technology exceeded the total cost of these programs, generating a positive net cost. Special funds activities generate continued funding for long-term projects that reduce emissions in the South Coast Basin. Since this funding covers multiple year spending on various projects, it reports a positive net cost. *Advancement of clean air technology* identifies technologies from anywhere in the world that may have application in reducing emissions from mobile and stationary sources in the AQMD's jurisdiction. The costs for the rest of the work program activities exceed their respective revenues with the shortfall drawn from general revenues.

These work program activities are:

- **Ensure Compliance with Clean Air Rules** – Ensure compliance with AQMD rules for existing major and small stationary sources of all pollutants.
- **Customer Service** - Provide local government, business, and the public with accesses and input into the regulatory and policy processes of the AQMD. Assist cities and others with AB 2766 projects. Interact with local, State and federal agencies and others to share air quality information, resolve jurisdictional questions and implement joint programs. Implement comprehensive public information, legislative and customer service programs.

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

D. Financial Analysis of the AQMD's Funds

Governmental Funds

As of the end of the fiscal year, the AQMD's governmental funds reported combined ending fund balances of \$256,044,594, an increase of \$46,574,387 in comparison with the prior year. Approximately 83 percent of these fund balances (\$211.9 million) constitutes the portion pertaining to special revenue funds. Expenditures under these funds are restricted for specific purposes. The long-term contractual commitments related to these special fund programs such as replacement of diesel-fueled school buses involve multiple-year spending.

The General Fund is the operating fund of the AQMD. At the end of the fiscal year, the total fund balance of the General Fund amounted to \$44,120,390. The unreserved fund balance was \$34,425,246. Designations amount to \$9,341,061 or 27 percent. 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 37 and 38. One measure of the General Fund's liquidity is the comparison of both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance (designated and undesignated combined) represents 37.3 percent of total General Fund expenditures, while total fund balance represents 47.8 percent of the total General Fund expenditures. Unreserved General Fund balance may serve as a useful measure of the AQMD's net resources available for spending at the end of the fiscal year.

The fund balance of the AQMD's General Fund increased by \$10,517,105 during the fiscal year. Beginning FY 2001-02, fee rates increased 3.7 percent which was consistent with the change in the California Consumer Price Index (CPI) to recover the cost of AQMD programs.

Other fee changes as provided for in AQMD Regulation III, also provided additional revenues in FY 2001-02. Higher vacancy rates for staff positions, deferred contracts and capital equipment purchases generated expenditure savings. Approximately \$3.5 million represented the difference between prior years and current year encumbrances.

Proprietary Funds

As noted earlier, the AQMD's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. The amount of \$25,000 was transferred from the General Fund to the CNG Fueling Station to cover contracted administrative and maintenance costs for CNG fueling station. This is to accommodate the growing number of alternative-fuel vehicle fleets. This station was not operational as of June 30, 2002.

E. General Fund Budgetary Highlights

The FY 2001-02 adopted budget compared to the amended budget reflects an increase in appropriations of \$7,100,000. The changes to the budget were the result of additional funding received after the budget was adopted. Also, changes can be attributed to transfers from other funds and the use of undesignated fund balance for program needs that were unknown at the time the budget was developed.

Additional funding was received from the following agencies:

EPA - \$2,700,000 for Photochemical Assessment Monitoring Stations (PAMS), the National Air Toxics Pilot Program, and the PM2.5 monitoring program.

California Energy Commission (CEC) - \$200,000 was received to help fund the Compressed Natural Gas (CNG) fueling station at the AQMD headquarters; \$500,000 was received for two Omnitrans Liquid/CNG fueling stations one in Montclair and one in San Bernardino.

CARB - \$500,000 was received for the following: the Children's Health Study, the Alternative Diesel Fuel Program, and a demonstration project to analyze a technology for the control of odors and Volatile Organic Compounds (VOC) from metal casting operations.

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

AES Settlement Fund - \$1,500,000 was allocated for community outreach program assistance to help AQMD with identifying and addressing neighborhood air quality issues in the African-American, Hispanic, and Asian communities.

Clean Fuels Fund - \$800,000 was allocated for various Clean Fuels Program activities such as the CNG fueling station at AQMD headquarters, administrative support, technical

assistance, expert consultations, public outreach and technical conference sponsorship, and Technology Advancement website upgrades.

Advanced Technology, Outreach and Education Fund - \$200,000 was transferred to co-fund the previously mentioned project with CARB to control odors from VOC in metal casting operations.

Air Toxics "Hot Spots" Fund - \$100,000 was transferred for continuation of privatization of portions of the Annual Emissions Reporting (AER) Program.

The remaining \$600,000 increase can be attributed to transfers from the undesignated fund balance for various administrative and program needs that were unknown at the time the budget was adopted.

The FY 2001-02 Final Budget in comparison with actual activity resulted in a \$7,500,000 savings. The savings can be attributed to the following:

Salaries and Employee Benefits contributed to approximately 43 percent of the overall savings. The main factor for this savings is that vacant positions at the AQMD averaged 5 percent of the amended budget. In addition, the amounts budgeted for Overtime and Rideshare Pay were based on prior year activity; these accounts were not spent at the same level as in previous years.

Several projects budgeted under contracts (including the related advertising of Requests for Proposals) or capital outlays were deferred, which accounted for approximately 29 percent of the overall savings.

In addition, 25 percent of the savings can be attributed to amounts budgeted in various accounts (e.g. Communications, Insurance) based on prior year experience that were not spent at the previous level. Utilities were budgeted based on anticipated rate increases due to the energy crisis that did not transpire.

The remaining 3 percent difference is related to an increase in revenue received from permit processing activity and larger emission fee payments.

F. Capital Assets and Debt Administration

Capital Assets

The AQMD's investment in capital assets is mainly for its governmental activities. The book value was \$66,819,117 (net of accumulated depreciation of \$39,578,265) as of June 30, 2002. This investment in capital assets includes land, buildings, equipment for laboratory, air monitoring stations, computer and office, and AQMD vehicles which are mostly alternative-fuel vehicles.

The increase in capital assets primarily reflects additions to laboratory and air monitoring equipment and ongoing replacement of aging AQMD vehicle fleet. These vehicles are being used by AQMD inspectors and AQMD employees who are encouraged to carpool.

Additional information on the capital assets can be found in the "Notes to Financial Statements," pages 42 and 43.

Long-Term Debt

At the end of the current fiscal year, the AQMD had a total long-term debt outstanding of \$101,591,407 including the current portion of \$31,701,097. Of this amount, \$61,990,000 represents the Installment Sale Revenue Bonds issued by the AQMD Building Corporation (Corporation) whereby the AQMD is required to make debt service payments. This is in accordance with the Installment Purchase Agreement between the Corporation and the AQMD. Additional information on the Installment Sale Revenue Bonds can be found in the "Notes to Basic Financial Statements." The amount of \$28,556,896 represents the Pension Obligation Bonds which were issued in December 1995 jointly with the County of San Bernardino to retire the Unfunded Actuarial Accrued Liability (UAAL) due to San Bernardino County Employees Retirement Association. Other long-term debt includes general claims and Workers' Compensation payable of \$343,141 and compensated absences of \$10,701,370.

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

The FY 2002-03 expenditure budget decreases by 4 percent over the FY 2001-02 amended budget. A significant portion of this decrease reflects the 33 percent statewide reduction (\$2.1 million for AQMD) in State subvention funding as a result of reductions in the State budget. To mitigate a portion of this reduction in State support, 29 of the 32 positions added last year (with the new subvention dollars) to enhance the AQMD's compliance activities were unfunded.

Moreover, since FY 1991-92, the AQMD has reduced staffing and program costs despite increased program requirements. The FY 2002-03 expenditure budget is \$99.2 million and includes funding for 785 of the proposed 814 authorized positions. Compared to FY 1991-92, this reflects 33 percent less staffing and a 13 percent reduction in budgeted expenditures. Adjusting today's dollar for inflation, the FY 2002-2003 budget is 36 percent less than the FY 1991-92 adopted budget. Despite these reductions and the success of several streamlining measures adopted by the Board, revenues, especially declining emission fee revenues, did not keep pace with the program requirements. Last year, based on an independent assessment of the AQMD's fee structure and an audit of the agency by the State Auditor, which recommended increases in permit processing and emission fee revenues, the Board approved adjustments to the permit processing fees and emission fees to more closely recover program costs. These adjustments are being phased-in over a two-to-three year period. Therefore, the FY 2002-03 budget proposed an across-the-board fee increase of 2.5 percent consistent with the change in the California Consumer Price Index plus an appropriation of the remaining balance of the Subvention Reserve.

While the proposed budget for FY 2002-03 represents a decrease from the current amended budget, it represents an approximate 3.2 percent increase over last year's originally adopted budget. This increase reflects funding to cover salaries and benefits negotiated with employees; significant increases in liability and workers compensation costs; and increases in retirement costs associated with higher contribution rates. Estimated revenues for FY 2002-03 are \$98,366,900, which with the addition of the remaining \$512,907 from the reserve for legislatively directed subvention activities and \$276,708 from the undesignated fund balance brings funding in balance with expenditures. As in past years, the AQMD will continue its efforts to make progress toward attaining the federal and State clean air mandates in the most cost-effective manner possible.

H. Requests for Information

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

BASIC FINANCIAL STATEMENTS

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS
June 30, 2002

<u>Assets</u>	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	SCAQMD Building Corporation
Current assets:				
Cash and cash equivalents	\$ 240,004,874	\$ 35,485	\$ 240,040,359	\$ 1,314,551
Investments	17,380,450	-	17,380,450	-
Interest receivable	1,741,912	-	1,741,912	957,916
Due from other governmental agencies	25,156,533	-	25,156,533	-
Accounts receivable, net	3,062,015	-	3,062,015	-
Inventory of supplies, at cost	60,529	5,262	65,791	-
Other assets	-	-	-	586,548
Total current assets	287,406,313	40,747	287,447,060	2,859,015
Noncurrent assets:				
Land	9,061,762	-	9,061,762	-
Capital assets, net of accumulated depreciation	57,757,355	-	57,757,355	-
Total noncurrent assets	66,819,117	-	66,819,117	-
Total assets and other debits	354,225,430	40,747	354,266,177	2,859,015
 <u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	17,061,672	33	17,061,705	148,061
Compensated absences obligation	364,263	-	364,263	-
Claims payable	403,579	-	403,579	-
Accrued interest payable	941,901	-	941,901	1,028,384
Salaries and benefits payable	3,955,434	-	3,955,434	-
Deferred revenue	9,576,771	-	9,576,771	-
Total current liabilities	32,303,620	33	32,303,653	1,176,445
Noncurrent liabilities:				
Due within one year	31,701,097	-	31,701,097	-
Due in more than one year	69,890,310	-	69,890,310	-
Total noncurrent liabilities	101,591,407	-	101,591,407	-
Total liabilities	133,895,027	33	133,895,060	1,176,445
 <u>Net assets</u>				
Investment in capital assets, net of related debt	4,829,117	-	4,829,117	-
Restricted for special projects/programs	211,924,204	-	211,924,204	-
Unrestricted	3,577,082	40,714	3,617,796	1,682,570
Total net assets	\$ 220,330,403	\$ 40,714	\$ 220,371,117	\$ 1,682,570

See accompanying notes to the basic financial statements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2002

Functions / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Fees and Charges				Governmental Activities	Business-Type Activities	Total
	Expenses	Stationary Sources	Mobile Sources	Operating Grants and Subventions			
Primary government:							
Governmental activities:							
Advance clean air technology	\$ 4,484,278	\$ -	\$ 4,420,819	\$ 885,861	\$ -	\$ -	\$ 822,402
Ensure compliance with clean air rules	32,780,500	27,255,174	1,123,000	4,284,948	-	-	(117,378)
Customer service	9,491,294	5,469,668	2,243,263	468,156	-	-	(1,310,207)
Develop programs to achieve clean air	5,618,177	2,826,510	1,601,785	512,818	-	-	(677,064)
Develop rules to achieve clean air	6,574,206	4,535,925	265,730	686,014	-	-	(1,086,537)
Monitoring air quality	9,827,518	4,748,325	430,540	3,511,236	-	-	(1,137,417)
Permit review	20,572,771	19,257,197	-	85,279	-	-	(1,230,295)
Policy support	2,226,376	1,645,028	187,297	-	-	-	(394,051)
Special funds activities	82,812,501	-	-	-	118,891,866	-	36,079,365
Total governmental activities	174,387,621	65,737,827	10,272,434	10,434,312	118,891,866	-	30,948,818
Business-type activities:							
Clean air store	-	-	-	-	-	-	1,807
Total business-type activities	-	-	-	-	-	-	1,807
Total primary government	\$ 174,387,621	\$ 65,737,827	\$ 10,272,434	\$ 10,434,312	\$ 118,891,866	\$ -	\$ 30,947,011
Component Unit:							
SCAQMD Building Corporation	\$ 3,852,571	\$ -	\$ -	\$ -	\$ -	\$ -	(3,852,571)
Total component unit	\$ 3,852,571	\$ -	\$ -	\$ -	\$ -	\$ -	(3,852,571)
General revenues:							
Grants and subventions - not restricted to specific programs							2,956,739
Mobile sources - not restricted to specific programs							6,285,053
Interest							1,605,953
Lease revenue							231,099
Penalties/settlement							4,559,936
Subscriptions							55,628
Other revenue							760,551
Merchandise sales							1,437
Transfers							(25,000)
Total general revenues, and transfers							16,456,396
Change in net assets							47,378,777
Net assets - beginning balance							172,951,626
Net assets - ending balance							220,371,117
							\$ 40,714
							\$ 172,967,710
							\$ 2,392,052
							\$ 47,403,407
							\$ 1,460,519
							\$ 3,143,089
							\$ 1,682,570

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

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY COMPONENT UNIT
For the Year Ended June 30, 2002**

<u>Cash flows from operating activities:</u>	
Cash payment for goods and services	\$ (10,584)
Net cash provided (used) by operating activities	<u>(10,584)</u>
 <u>Cash flows from capital and related financing activities:</u>	
Payments for improvements	(440,547)
Proceeds from refunding bonds	26,636,002
Payment to refunding escrow agent	(26,636,002)
Bond issuance costs	(181,147)
Receipts of principal on installment sale revenue bonds	4,185,000
Principal paid on capital debt	(4,185,000)
Receipts of interest on installment sale revenue bonds	2,351,450
Interest paid on capital debt	(2,319,285)
Net cash transferred from the general fund	<u>(589,529)</u>
 <u>Cash flows from investing activities</u>	
Interest received	<u>83,737</u>
Net cash transferred from the general fund	<u>83,737</u>
Beginning cash balance, June 30,2001	<u>1,830,927</u>
Ending cash balance, June 30,2002	\$ <u><u>1,314,551</u></u>
 <u>Reconciliation of operating income to net cash provided by operating activities:</u>	
Operating income	\$ <u>(50,753)</u>
Adjustment to reconcile operating income to net cash provided by operating activities	
Increase in accounts payables and accrued expenses	<u>40,169</u>
Total adjustments	<u>40,169</u>
Net cash provided by operating activities	\$ <u><u>(10,584)</u></u>

See accompanying notes to the basic financial statements.

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SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET-GOVERNMENTAL FUNDS
June 30, 2002

Assets and other debits										
General	Mobile Sources Air Pollution Reduction Fund	Air Quality Investment Fund	Clean Fuels Program Fund	Carl Moyer Program Fund	Lower-Emission School Bus Fund	State-Emissions Mitigation Fund	Other Governmental Funds	Total		
Cash and cash equivalents	\$ 42,481,652	\$ 34,029,776	\$ 31,457,157	\$ 36,966,436	\$ 28,205,295	\$ 11,126,829	\$ 25,319,341	\$ 240,004,874		
Investments	9,892,150	2,496,100	-	4,992,200	-	-	-	17,380,450		
Interest receivable	306,343	226,871	213,666	257,481	191,025	85,357	242,391	1,741,912		
Due from other governmental agencies	8,076,566	2,305,317	-	2,107,644	1,500,000	7,651,145	3,115,861	25,156,533		
Due from other funds	28,007	-	-	-	-	-	-	28,007		
Accounts receivable	580,018	-	256,089	446,476	-	-	1,779,432	3,062,015		
Inventories of supplies, at cost	60,529	-	-	-	-	-	-	60,529		
Total assets and other debits	\$ 61,425,265	\$ 39,058,064	\$ 31,926,912	\$ 38,183,486	\$ 29,896,320	\$ 18,863,331	\$ 30,457,025	\$ 287,434,320		
Liabilities and fund balances										
Accounts payable and accrued liabilities	\$ 3,003,940	\$ 1,311,484	\$ 551,341	\$ 3,150,435	\$ 3,040,243	\$ 812,905	\$ 529,871	\$ 16,158,571		
Salaries and benefits payable	3,955,434	-	-	-	-	-	-	3,955,434		
Due to other funds	888	28,007	-	-	-	-	902,213	931,108		
Deferred revenue	9,576,771	-	-	-	-	-	-	9,576,771		
Compensated absences obligation	364,263	-	-	-	-	-	-	364,263		
Claims payable	403,579	-	-	-	-	-	-	403,579		
Total liabilities	17,304,875	1,339,491	551,341	3,150,435	3,040,243	812,905	1,432,084	31,389,726		
Fund balances:										
Reserved for encumbrances	9,121,708	24,198,601	4,402,786	8,940,513	8,862,113	11,406,394	7,302,354	91,520,149		
Reserved for inventory of supplies	60,529	-	-	-	-	-	-	60,529		
Reserved for subvention compliance program	512,907	-	-	-	-	-	-	512,907		
Unreserved:										
Designated for self-insurance	2,000,000	-	-	-	-	-	-	2,000,000		
Designated for litigation/enforcement	970,000	-	-	-	-	-	-	970,000		
Designated for equipment replacement	1,000,000	-	-	-	-	-	-	1,000,000		
Designated for revenue deficiencies	5,000,000	-	-	-	-	-	-	5,000,000		
Designated for unemployment claims	80,000	-	-	-	-	-	-	80,000		
Designated for enhanced compliance	291,061	-	-	-	-	-	-	291,061		
Undesignated	25,084,185	13,519,972	26,972,785	26,092,538	25,003,452	6,644,032	21,722,587	154,609,948		
Total fund balances	44,120,390	37,718,573	31,375,571	35,033,051	33,865,565	18,050,426	29,024,941	256,044,594		
Total liabilities and fund balances	\$ 61,425,265	\$ 39,058,064	\$ 31,926,912	\$ 38,183,486	\$ 37,623,917	\$ 18,863,331	\$ 30,457,025	\$ 287,434,320		

See accompanying notes to the basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

June 30, 2002

Fund Balances – Total Governmental Funds \$256,044,594

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

Capital assets net of accumulated depreciation have not been included as financial resources in governmental funds activity. These capital assets are reported in the Statement of Net Assets as capital assets of AQMD as a whole. 66,819,117

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. (941,901)

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 (90,890,037)
Compensated absences (10,701,370)

Net Assets of Governmental Activities: \$220,330,403

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, 2002

	General Fund	Mobile Sources Air Pollution Reduction Fund	Air Quality Investment Fund	Clean Fuels Program Fund	Carl Moyer Program Fund	Lower-Emission School Bus Fund	State-Emissions Mitigation Fund	Other Governmental Funds	Total
Revenues:									
Emission fees	23,542,903	-	-	-	-	-	-	-	23,542,903
Annual operating fees	26,192,638	-	-	-	-	-	-	-	26,192,638
Permit fees	13,961,148	-	-	-	-	-	-	-	13,961,148
Clean fuels / Mobile / Stationary Sources	15,892,754	13,052,717	-	9,633,201	-	-	-	17,403,623	55,982,295
Emission reduction fees	-	-	-	-	-	-	-	2,300,000	2,300,000
Air Toxics	1,413,000	-	-	-	-	-	-	-	1,413,000
Transportation	664,733	-	-	-	-	-	-	-	664,733
State subvention	6,053,883	-	-	-	-	-	-	-	6,053,883
Federal grant	6,531,262	-	-	-	-	-	-	-	6,531,262
State grant	805,906	-	-	-	7,799,964	8,580,000	23,479,627	42,105	40,707,602
Interest	1,605,953	1,834,524	926,340	1,340,802	1,297,401	930,004	1,391,124	1,391,124	9,576,467
Lease revenue	231,099	-	-	-	-	-	-	-	231,099
Source test/analysis fees	308,169	-	-	-	-	-	-	-	308,169
Hearing Board	319,969	-	-	-	-	-	-	-	319,969
Penalties/settlements	4,559,936	-	-	-	-	-	-	23,157	4,583,093
Subscriptions	55,628	-	-	-	-	-	-	-	55,628
Reclaim & executive order mitigation	-	-	16,524,066	-	-	-	-	-	16,524,066
Other revenue	760,551	2,343,299	7,280,758	428,221	-	1,000,000	1,240,299	-	13,053,128
Total revenues	102,899,532	17,230,540	24,731,164	11,402,224	9,097,365	10,510,004	23,729,946	22,400,308	222,001,083
Expenditures:									
Current:									
Salaries and employee benefits	61,650,177	-	-	-	-	-	-	-	61,650,177
Insurance	1,034,296	-	-	-	-	-	-	-	1,034,296
Rent	721,083	-	-	-	-	-	-	-	721,083
Supplies & merchandise purchased	3,024,880	-	-	-	-	-	-	-	3,024,880
Contract and special services	9,951,553	15,084,169	8,209,258	6,529,078	10,762,139	7,795,899	5,679,520	10,024,367	74,035,983
Maintenance	979,146	-	-	-	-	-	-	-	979,146
Travel and auto	437,566	-	-	-	-	-	-	-	437,566
Utilities	1,633,992	-	-	-	-	-	-	-	1,633,992
Communications	527,902	-	-	-	-	-	-	-	527,902
Uncollectible accounts	13,917	-	-	-	-	-	-	-	13,917
Other expenditures	643,032	354,244	-	402,995	-	-	-	86,862	100,779
Capital outlay	2,142,659	-	-	-	-	-	-	17,602,356	19,002,627
Debt service:									
Principal	5,737,655	-	-	-	-	-	-	-	5,737,655
Interest	3,859,569	-	-	-	-	-	-	-	3,859,569
Total expenditures	92,357,427	15,438,413	8,209,258	6,932,073	10,762,139	7,795,899	5,679,520	28,226,967	175,401,696
Excess (deficiency) of revenues over (under) expenditures	10,542,105	1,792,127	16,521,906	4,470,151	(1,664,774)	2,714,105	18,050,426	(5,826,659)	46,599,387
Other financing sources (uses):									
Operating transfers in	-	-	-	-	-	531,000	-	16,149	547,149
Operating transfers (out)	(25,000)	-	-	(547,149)	-	-	-	-	(572,149)
Total other financing sources (uses)	(25,000)	-	-	(547,149)	-	531,000	-	16,149	(25,000)
Excess of revenues and other sources over (under) expenditures and other uses	10,517,105	1,792,127	16,521,906	3,923,002	(1,664,774)	3,245,105	18,050,426	(5,810,510)	46,574,387
Fund balances, June 30, 2001	33,603,285	35,926,446	14,853,665	31,110,049	35,530,339	23,610,972	34,835,451	34,835,451	244,305,658
Fund balances, June 30, 2002	44,120,390	37,718,573	31,375,571	35,033,051	33,865,565	26,856,077	52,885,877	29,024,941	290,880,045

See accompanying notes to the basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2002**

Net Change in Fund Balances - Total Governmental Funds \$46,574,387

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. 2,656,041

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. (5,406,227)

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. 5,737,655

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 expenditures in Governmental Funds. (941,901)

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: (1,279,587)

Compensated absences	
General liability/workers compensation claims	<u>38,409</u>

Changes in Net Assets of Governmental Activities: \$47,378,777

See accompanying notes to the basic financial statements.

SOUTH COST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
June 30, 2002

	Proprietary Funds		
	Clean Air Store Fund	CNG Fueling Station Fund	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 10,485	\$ 25,000	\$ 35,485
Inventory of supplies, at cost	5,262	-	5,262
Total assets and other debits	<u>15,747</u>	<u>25,000</u>	<u>40,747</u>
 <u>Liabilities</u>			
Liabilities:			
Accounts payable and accrued liabilities	<u>33</u>	-	<u>33</u>
Total liabilities	<u>33</u>	<u>-</u>	<u>33</u>
 <u>Net assets</u>			
Unrestricted net assets	<u>15,714</u>	<u>25,000</u>	<u>40,714</u>
Total Net Assets	<u>\$ 15,714</u>	<u>\$ 25,000</u>	<u>\$ 40,714</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, 2002

	Proprietary Funds		
	Clean Air Store Fund	CNG Fueling Station Fund	Total
Revenue:			
Merchandise sales	\$ 1,437	\$ -	\$ 1,437
Total operating revenue	<u>1,437</u>	<u>-</u>	<u>1,437</u>
Expenses:			
Other Expenses	<u>1,807</u>	<u>-</u>	<u>1,807</u>
Total operating revenue	<u>1,807</u>	<u>-</u>	<u>1,807</u>
Operating loss	(370)	-	(370)
Non-operating revenues:			
Contributions	15,000	-	15,000
Transfers in	<u>-</u>	<u>25,000</u>	<u>25,000</u>
Non-operating revenues	15,000		
Changes in net assets	14,630	25,000	39,630
Total net assets, June 30, 2001	<u>1,084</u>	<u>-</u>	<u>1,084</u>
Total net assets, June 30, 2002	<u>\$ 15,714</u>	<u>\$ 25,000</u>	<u>\$ 40,714</u>

See accompanying notes to the basic financial statements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2002

	Proprietary Funds		
	Clean Air Store Fund	CNG Fueling Station Fund	Total
<u>Cash flows from operating activities:</u>			
Cash received from merchandise sales	\$ 1,553	\$ -	\$ 1,553
Cash payment for goods and services	(129)	-	(129)
Net cash provided (used) by operating activities	<u>1,424</u>	<u>-</u>	<u>1,424</u>
 <u>Cash flows from noncapital financing activities:</u>			
Transfers	-	25,000	25,000
Net cash transferred from the general fund	<u>-</u>	<u>25,000</u>	<u>25,000</u>
Beginning cash balance, June 30,2001	9,061	-	9,061
Ending cash balance, June 30,2002	<u>\$ 10,485</u>	<u>\$ 25,000</u>	<u>\$ 35,485</u>
 <u>Reconciliation of operating income to net cash provided by operating activities:</u>			
Operating income	\$ (370)	\$ -	\$ (370)
Adjustment to reconcile operating income to net cash provided by operating activities			
Decrease (increase) in inventory	1,807	-	1,807
Increase (decrease) in accounts payable	(13)	-	(13)
Total adjustments	<u>1,794</u>	<u>-</u>	<u>1,794</u>
Net cash provided by operating activities	<u>\$ 1,424</u>	<u>\$ -</u>	<u>\$ 1,424</u>

See accompanying notes to the basic financial statements.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2002**

<u>Assets</u>	<u>Agency Funds</u>			<u>Total</u>
	<u>SCAQMD Building Corporation Fund</u>	<u>General Purpose Fund</u>	<u>Retirement Benefit Trust Fund</u>	
Cash and cash equivalents	\$ 488,124	\$ 5,651,753	\$ 1,506,134	\$ 7,646,011
Interest receivable	3,198		9,978	13,176
Due from other funds		902,213	888	903,101
Total assets	\$ <u>491,322</u>	\$ <u>6,553,966</u>	\$ <u>1,517,000</u>	\$ <u>8,562,288</u>
 <u>Liabilities and fund balances</u>				
Liabilities:				
Accounts payable & accrued liabilities	\$ <u>491,322</u>	\$ <u>6,553,966</u>	\$ -	\$ <u>7,045,288</u>
Total liabilities	<u>491,322</u>	<u>6,553,966</u>	<u>-</u>	<u>7,045,288</u>
Net assets held in trust for retirement benefit	<u>-</u>	<u>-</u>	<u>1,517,000</u>	<u>1,517,000</u>
Total liabilities and net assets	\$ <u>491,322</u>	\$ <u>6,553,966</u>	\$ <u>1,517,000</u>	\$ <u>8,562,288</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, 2002

	<u>Retirement Benefit Trust Fund</u>
<u>Additions:</u>	
Interest	\$ 49,488
Contributions	<u>3,592</u>
Total additions	<u>53,080</u>
 <u>Deductions:</u>	
Other expenditures	<u>-</u>
Total deductions	<u>-</u>
Change in net assets	53,080
 Net assets held in trust for retirement benefit:	
Fund balances, June 30, 2001	<u>1,463,920</u>
 Fund balances, June 30, 2002	 <u>\$ 1,517,000</u>

See accompanying notes to the basic financial statements.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2002

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

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

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

B. Measurement Focus and Basis of Accounting

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) as well as the following pronouncements issued on or before November 30, 1989, to the business-type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the committee on Accounting Procedure. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

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

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

The accounts of the AQMD are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. Governmental resources are accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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.

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 while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

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

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 other financial source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditure.

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; hence, no eliminations were made for internal balances.

Fund financial statements for the primary government's (AQMD) 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. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent 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 are at least 5 percent 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 Mobile Sources Air Pollution Reduction Fund, Air Quality Investment Fund, Clean Fuels Program Fund, Carl Moyer Program Fund, Lower-Emission School Bus Fund, and State Emissions Mitigations Fund in addition to the General Fund. The proprietary funds which are

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

presented in aggregate consist of the Clean Air Store Enterprise Fund and the Compressed Natural Gas (CNG) Fueling Station Fund.

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

All governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Using the current financial resources measurement focus means that only current assets and current liabilities are generally included in the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the AQMD considers revenues to be available if they are collected within 60 days after year-end to be available to finance the expenditures accrued for the reporting period. 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 due.

Amounts expended to acquire capital assets are recorded as 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 fund expenditures.

Proprietary Fund Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows. These funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (revenues) and decreases (expenses) in total net assets.

Fiduciary Fund Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets. These funds represent Agency Funds which are custodial in nature (assets equal liabilities) and do not involve the recording of revenues and expenses. Agency Funds use the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

C. Fund Types and Major Funds

GOVERNMENTAL FUNDS

As noted earlier, the funds designated as major funds are determined in accordance with GASB Statement No. 34. AQMD reports the following major governmental funds:

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

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

- Mobile Sources Air Pollution Reduction Fund - Used to account for 30 percent 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 Basin. The total year-to-date projects amount to over \$155 million and over 10,000 tons of emissions have been reduced. This special fund was established in FY 1991-92.
- Air Quality Investment Fund - Used to account for monies submitted by employers in lieu of complying with the provisions of Rule 2202. Rule 2202 provides employers with a menu of options to reduce mobile source emissions generated from employee commutes and options to meet a worksite-specific emission reduction target for the subsequent year. Employers with 250 or more employees at a worksite are subject to this rule. The total year-to-date funded projects amount to \$20.9 million and over 13,000 tons of emissions reductions were achieved.

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

- Clean Fuels Program Fund – Established as a Special Revenue Fund in FY 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. Some 635 projects were funded totaling \$84 million since 1988.

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

- Carl Moyer Program Fund - Established in FY 2000 to account for activities related to the administering of State funds set aside for the replacement of diesel-powered vehicles with cleaner-technology vehicles. It has funded over 2,200 vehicles and 33 infrastructure/charging stations, totaling \$53.5 million. It provides incentive funds for the replacement of diesel-fueled on- and off-road vehicles such as refuse haulers, heavy duty trucks, transit and school buses, construction equipment, and marine vessels.
- Lower Emission School Bus Fund – Established in FY 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 \$24.7 million for school bus replacement and \$7.4 million for retrofit has been provided in FY 2000-01 and FY 2001-02.
- State Emissions Mitigation Fund – Established during FY 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.

Details of various non-major governmental funds are presented under the section “Non-Major Governmental Funds.”

Proprietary Funds

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

Other Fund Types

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 VII provides for more information regarding this agreement.

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

- 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 AQMD employees retiring subsequent to June 30, 1982, who are members of the Los Angeles County Employees Retirement Association. Note IX contains more information about the AQMD's retirement plans.

D. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is employed in the governmental funds. Purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. Open encumbrances at year-end are recorded as reservations of fund balance. These outstanding encumbrances do not constitute expenditures or liabilities until performance has occurred on the part of the vendors with whom the AQMD has entered into an agreement.

E. Capital Assets and Depreciation

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

F. Inventories

Inventories in the General Fund consist principally of office, computer, cleaning and laboratory supplies. Inventories are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Material and supplies are charged to inventories when purchased and recorded as expenditures when issued.

G. 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.

The current and noncurrent portion of compensated absences amounted to \$364,263 and \$10,701,370, respectively, and has been reflected in the Statement of Net Assets.

H. Self-Insurance

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

I. Reserves and Designations

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

Fund balances have been reserved for the following purposes at June 30, 2002:

	General Fund	Special Revenue Funds	Total
Reserved:			
Encumbrances	\$ 9,121,708	\$ 82,398,441	\$ 91,520,149
Supplies Inventory	60,529	-	60,529
Subvention Compliance Programs	<u>512,907</u>	<u>-</u>	<u>512,907</u>
Total Reserved Fund Balance:	\$ <u>9,695,144</u>	\$ <u>82,398,441</u>	\$ <u>92,093,585</u>

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

Unreserved fund balance has the following components at June 30, 2002:

	General <u>Fund</u>	Special Revenue <u>Funds</u>	<u>Total</u>
Designated:			
Self-insurance	\$ 2,000,000	\$ -	\$ 2,000,000
Litigation/Enforcement	970,000	-	970,000
Equipment Replacement	1,000,000	-	1,000,000
Revenue Deficiencies	5,000,000	-	5,000,000
Unemployment Claims	80,000	-	80,000
Enhancement Compliance	291,061	-	291,061
Undesignated	<u>25,084,185</u>	<u>129,525,763</u>	<u>154,609,948</u>
Total Unreserved Fund Balance	<u>\$34,425,246</u>	<u>\$129,525,763</u>	<u>\$ 163,951,009</u>
Total	<u>\$44,120,390</u>	<u>\$211,924,204</u>	<u>\$ 256,044,594</u>

J. Cash and Cash Equivalents

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

K. 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.

L. Restatements

In 2002, the AQMD implemented GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments and GASB Statement No. 38, Certain Financial Statement Note Disclosures. GASB Statement No. 34 established new financial reporting requirements for all state and local governments. The implementation of GASB Statement No. 34 resulted in the restatement of the governmental funds fund balance from \$209,470,207 to \$172,967,710. This restatement consists primarily of a decrease in fund balance due to the inclusion of bonds payable and noncurrent portion of claims payable, offset by increase in fund balance due to inclusion of fixed assets net of accumulated depreciation. Bonds and noncurrent claims payable were previously reported in the general long-term debt account group and capital assets were previously reported in the general fixed asset account group.

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

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, 2002.

Cash on hand	\$ 864,715	\$ -
Cash in bank	45,000	1,314,551
Cash Equivalents in Pooled Investments	<u>246,776,655</u>	<u>-</u>
	<u>\$247,686,370</u>	<u>\$ 1,314,551</u>

DEPOSITS

At June 30, 2002, the carrying amount of the AQMD's deposits in bank was \$45,000 and the bank balance was \$92,757. The entire amount was covered by federal depository insurance.

At June 30, 2002, the carrying amount and bank balance of the AQMD's component unit deposits in bank was \$1,314,551 of which \$100,000 was covered by federal depository insurance. The remaining \$1,214,551 in excess of \$100,000 was collateralized as required by state law.

INVESTMENTS

At June 30, 2002, 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 \$246,776,655 which approximates market value. Investments in the amount of \$17,380,450 are reported at market value which approximates costs.

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

For the past 25 years, the County of Los Angeles has provided treasury management services to the AQMD. These services are limited to the processing of payroll and accounts payable warrants and the investment of available cash balances. In April 1996 and again in June 2000, the Governing Board reviewed the treasury management options available to the AQMD and elected to continue with the services provided by the 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.

NOTES TO FINANCIAL STATEMENTS
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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 U.S. Treasuries or Agencies with a market value of 102 percent
- Reverse purchase agreements – are not allowed except as part of investments in the County of Los Angeles Pooled Surplus Investment Portfolio and the State of California Local Agency Investment Fund
- Variable and floating rate securities
- Derivative securities – not allowed as Special Purpose Investments

The following table summarizes investments categorized in accordance with GASB Statement No. 3 at June 30, 2002. Category 1 includes investments that are insured or registered or for which the securities are held by the AQMD or its agent in the AQMD's name.

	Category			Uncategorized	Total
	1	2	3		
Cash Equivalents					
Investment in Los Angeles County's PSI Fund	\$ -	\$ -	\$ -	\$216,565,865	\$216,565,865
Investment in Local Agency Investment Fund	-	-	-	<u>30,210,790</u>	<u>30,210,790</u>
Total Cash Equivalents:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$246,776,655</u>	<u>\$246,776,655</u>
Investments					
U.S. Government Securities	\$17,380,450	-	-	-	\$ 17,380,450
Total Restricted Investments	<u>17,380,450</u>	-	-	-	<u>17,380,450</u>
Total Cash Equivalent & Investments	<u>\$17,380,450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$246,776,655</u>	<u>\$264,157,105</u>

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

III. DUE FROM OTHER GOVERNMENT AGENCIES

Due from other government agencies at June 30, 2002 consists of the following:

California Trade and Commerce Agency	\$ 42,105
California Energy Commission – Support Alternative Fuel Infrastructure	2,600,000
U.S. Treasury, GSA (Lease)	9,497
California Air Resources Board (CARB)	7,779,951
Environmental Protection Agency grant funds receivable	5,132,946
Department of Motor Vehicles Receivable	<u>9,592,034</u>
Total	<u>\$ 25,156,533</u>

IV. INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS

The comparison of interfund balances as of June 30, 2002 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Mobile Source Air Pollution Reduction	\$ 28,007
Fiduciary Fund – Retirement Benefit Trust	General Fund	888
Agency Fund – General Purpose Fund	Air Toxic Fund	<u>902,213</u>
Total		<u>\$ 931,108</u>

The amount of \$25,000 was transferred from the General Fund to the CNG Fueling Station for constructing the AQMD's CNG gas fueling station

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

V. CAPITAL ASSETS AND DEPRECIATION

Capital Assets of the AQMD for the year ended June 30, 2002 consisted of the following:

<u>Capital Assets – Governmental Activities</u>				
	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
Land and Improvements	\$ 8,829,791	\$ 231,971	\$ -	\$ 9,061,762
Buildings and Improvements	72,919,743	259,329	-	73,179,072
Equipment	<u>23,519,539</u>	<u>1,478,933</u>	<u>841,924</u>	<u>24,156,548</u>
Total	\$105,269,073	\$ 1,970,233	\$841,924	\$ 106,397,382
Less:				
Accumulated Depreciation	-	<u>(39,578,265)</u>	-	<u>(39,578,265)</u>
Net Book Value of				
Capital Assets	<u>\$105,269,073</u>	<u>(\$37,608,032)</u>	<u>\$841,924</u>	<u>\$ 66,819,117</u>

In compliance with GASB Statement No. 34 reporting, the AQMD started depreciating its capital assets during the FY 2002. As a result of this change in reporting, the total accumulated depreciation of \$39,578,265 is greater than the total additions of \$1,970,233 for the year.

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

For the year ended June 30, 2002, the depreciation expense of \$5,406,227 on capital assets was charged to the AQMD's functions/programs as follows:

Advance Clean Air Technology	\$ 228,863
Ensure Compliance with Clean Air Rules	2,256,733
Customer Service	403,571
Develop Programs to Achieve Clean Air	214,951
Develop Rules to Achieve Clean Air	266,255
Monitoring Air Quality	1,120,193
Permit Reviews	844,026
Policy Support	<u>71,635</u>
 Total Depreciation Expense:	 \$ <u>5,406,227</u>

VI. LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the AQMD for the year ended June 30, 2002:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Incurred or</u> <u>Issued</u>	<u>Satisfied or</u> <u>Matured</u>	<u>Balance</u> <u>June 30, 2002</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts</u> <u>Due in More</u> <u>Than One Year</u>
Governmental Activities:						
Claims Payable:						
General Liability	\$ 139,394	\$ 81,693	\$ 107,216	\$ 113,871	\$ -	\$ 113,871
Workers' Compensation	242,156	104,881	117,767	229,270	216,097	13,173
Compensated absence	9,421,783	1,279,587	-	10,701,370	-	10,701,370
Installment Sale Obligation:						
Building	49,804,707	41,830,293	29,645,000	61,990,000	29,875,000	32,115,000
Equipment	42,654	-	42,654	-	-	-
Installment Pension Bond						
Obligation	<u>30,066,896</u>	<u>-</u>	<u>1,510,000</u>	<u>28,556,896</u>	<u>1,610,000</u>	<u>26,946,896</u>
	<u>\$89,717,590</u>	<u>\$43,296,454</u>	<u>\$31,422,637</u>	<u>\$101,591,407</u>	<u>\$31,701,097</u>	<u>\$69,890,310</u>

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

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

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 1,610,000	\$ 1,457,213	\$ 3,067,213
2004	1,715,000	1,349,693	3,064,693
2005	1,835,000	1,232,598	3,067,598
2006	1,960,000	1,106,022	3,066,022
2007	2,095,000	969,859	3,064,859
2008 – 2012	12,940,000	2,390,149	15,330,149
2013 – 2017	3,822,024	11,501,983	15,324,007
2018 – 2022	<u>2,579,872</u>	<u>12,745,128</u>	<u>15,325,000</u>
Total	<u>\$28,556,896</u>	<u>\$32,752,645</u>	<u>\$61,309,541</u>

Total interest expenses on long-term debt for the year ended June 30, 2002 amounted to \$4,798,524. The following is the interest expenses allocated to the various functional activities categories.

Advance Clean Air Technology	\$ 196,480
Ensure Compliance with Clean Air Rules	1,833,043
Customer Service	507,434
Develop Programs to Achieve Clean Air	276,710
Develop Rules to Achieve Clean Air	335,823
Monitoring Air Quality	473,758
Permit Review	1,082,953
Policy Support	<u>92,323</u>
 Total Interest on Long-term Debt:	 \$ <u>4,798,524</u>

VII. 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, 2002, the remaining balance was \$22,140,000.

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

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, 2002, the remaining principal balance on the Series 1992 bonds is \$13,030,000 (\$42,675,000 less \$25,460,000 defeased). \$4,415,000 of the balance with a 5.6 percent coupon interest rate will mature and is payable on August 1, 2002. The 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 percent interest rate.

On June 1, 2002, the Corporation issued \$26,820,000 in Installment Sale Revenue Bonds with interest rates ranging from 2.75 percent to 4.25 percent to refund \$25,460,000 of the Series 1992 bonds with interest rates ranging from 4 percent to 6 percent. The net proceeds of \$26,636,002 were deposited with an escrow agent to provide for debt service payments on the Series 1992 bonds. As a result, \$25,460,000 of the Series 1992 bonds are considered to be defeased and the liability for that portion has been removed from bonds payable. The Corporation refunded portions of the 1992 Series bonds to reduce its total debt service payments by approximately \$2,477,246 and to obtain a present value savings of \$1,958,135.

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

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

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 4,415,000	\$ 2,055,971	\$ 6,470,971
2004	4,325,000	1,565,180	5,890,180
2005	4,515,000	1,544,589	6,059,589
2006	4,540,000	1,519,980	6,059,980
2007	4,565,000	1,494,105	6,059,105
2008 – 2012	24,500,000	6,033,831	30,533,831
2013 – 2015	<u>15,130,000</u>	<u>877,786</u>	<u>16,007,786</u>
Total:	<u>\$ 61,990,000</u>	<u>\$ 15,091,442</u>	<u>\$ 77,081,442</u>

VIII. SELF-INSURANCE

The AQMD's risk management program is responsible for purchasing insurance when available and cost-effective, self-insuring other exposures to loss when feasible. The AQMD is insured for commercial property (real and personal), boiler and machinery, director's and officer's liability, employee dishonesty and theft, excess general and automobile liability, and excess workers' compensation losses. As for general, automobile, and workers' compensation

NOTES TO FINANCIAL STATEMENTS
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liabilities, the AQMD is self-insured up to the applicable retention for the excess insurance coverage.

The AQMD carries \$129,496,576 of property insurance including boiler and machinery (with \$25 million of earthquake and flood coverage), \$10 million for director's and officer's 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 \$350,000. 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 \$350,000. As of June 30, 2002, \$509,488 and \$237,232, respectively, had been accrued for workers' compensation and general liability claims payable.

An appropriate amount has been recorded in the General Fund 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, 2002, is dependent on future developments based upon information from the independent claims' administrators and others involved with the administration of the programs, the AQMD management believes that the aggregate accrual is adequate to cover such losses.

IX. RETIREMENT PLANS

Substantially all of the AQMD's employees are members of either the Los Angeles County Employees' Retirement Association or the San Bernardino County Employees' Retirement Association. Benefits are funded by the AQMD and employee contributions. The AQMD's contributions for the year ended June 30, 2002 amounted to \$4,143,249 (\$28,974 to Los Angeles County Employees' Retirement Association and \$4,114,275 to San Bernardino County Employees' Retirement Association).

PLAN DESCRIPTION:

Los Angeles County Employees' Retirement Association

The AQMD contributes to the Los Angeles County Employees' Retirement Association (LACERA), a cost-sharing multi-employer defined benefit plan. This public employee retirement system acts as a common investment and administrative agent for the County of Los Angeles and other participating agencies including the AQMD. The AQMD's payroll for three employees covered by LACERA for the year ended June 30, 2002 was \$179,618. The AQMD's contribution for the same period was \$28,974. 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

The AQMD contributes to the San Bernardino County Employees' Retirement Association (SBCERA), a cost sharing multiple-employer defined benefit pension plan operating under the California County Employees Retirement Act of 1937. This public employee retirement

NOTES TO FINANCIAL STATEMENTS

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system acts as a common investment and administrative agent for San Bernardino County and other participating members including the AQMD. The AQMD's payroll for 770 employees covered by SBCERA for the year ended June 30, 2002 was \$54,058,458. The AQMD's contribution for the same period was \$4,114,275. Copies of SBCERA's annual financial report may be obtained from their executive office: 348 W. Hospitality Lane, San Bernardino, CA 92415.

All full-time employees are eligible to participate in SBCERA and related benefits, vested after five years of service under contributory plans and ten years of service under noncontributory plans. 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 percent 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.

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.

Prior to July 1, 1992, actuarially computed costs were determined using the projected unit-credit method. Effective July 1, 1992, this method was changed to the entry-age normal actuarial cost method. The AQMD's contributions for fiscal year ended June 30, 2001 represented approximately 5 percent of total required contributions to the plan. AQMD employee contributions to the plan amounted to \$900,933 for the fiscal year ended June 30, 2002.

SBCERA invests plan assets in a wide variety of investment vehicles including, but not limited to, U.S. Government securities, bonds and stocks. However, it is SBCERA's policy to avoid related-party investments in plan employer-participants. Details of the SBCERA's investments may be found in the SBCERA annual report. Historical trend information presented in SBCERA's annual report for the year ended June 30, 2001 is useful in assessing the accumulation of sufficient assets to pay benefits when due.

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 SBCERA. The AQMD issued a \$34,261,896 aggregate principal amount to refund its portion of the obligation to SBCERA. The purpose of this refunding was to lower the cost to the AQMD through the issuance of bonds at rates that are lower than those assessed by SBCERA and to restructure its debt service from an ascending to a level-debt-service schedule. These changes will result in estimated total gross debt service savings of \$20,151,420 through June 30, 2022. During the fiscal year ended June 30, 2002, \$1,510,000 in principal was paid on the bonds and

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

\$1,555,840 in interest. The principal balance outstanding at June 30, 2002 amounted to \$28,556,896.

Significant actuarial assumptions used in the valuation include (a) investment rate of return, compounded semi-annually, 8.16 percent per annum; (b) projected salary increases of 4.50 percent per annum which includes inflation at 4.50 percent; and (c) cost of living adjustments for retirees of 2 percent per annum.

Effective July 1, 1992, the asset valuation method for actuarial purposes was changed to a five-year smoothed market value.

Historically, the AQMD has reported to the retirement systems the basic salary as earnable compensation. To comply with the decision of the California Supreme Court (for Ventura County case, commonly referred to as the Ventura ruling), the Board of Retirement of LACERA and SBCERA have expanded the types of pay that are included in earnable compensation. Many benefits received in cash are now required to be added to a member's compensation earnable which is the basis for the benefit calculation. This was retroactive to October 1997.

Three-Year Trend Information for SBCERA: (Dollar Amounts in Thousands)

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
1999	\$48,667	100%
2000	42,673	100%
2001	58,572	100%

Schedule of Funding Progress for SBCERA: (Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Annual Covered Payroll ((b-a)/a)
6/30/99	\$ 2,969,329	\$ 2,741,249	\$(228,080)	108.3%	\$644,562	(35.4)%
6/30/00	3,423,773	3,148,901	(274,872)	108.7%	709,564	(38.7)%
6/30/01	3,709,187	3,327,648	(381,539)	111.5%	773,390	(49.3)%

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

X. 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, 2002, investments with a market value of \$36,379,567 are held in trust.

XI. 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. At June 30, 2002 the fund balance was \$2,291,439 and loan guarantees totaled \$29,451.

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

Operating Leases

Rental expense for noncancelable operating leases was \$76,600 for the year ended June 30, 2002. Future minimum lease payments under noncancelable operating leases of the AQMD total as follows:

Year Ending June 30, 2003	\$ 456,903
Year Ending June 30, 2004	459,612
Year Ending June 30, 2005	399,188
Year Ending June 30, 2006	86,280
Through September 30, 2006	<u>21,741</u>
Total	\$ <u>1,423,724</u>

The lease for the office equipment expires on April 30, 2005 while the lease of the South Bay satellite office expires September 30, 2006.

XII. PENDING LITIGATION

A number of lawsuits and claims are pending against the AQMD for alleged damages to persons and property and for other alleged liabilities arising out of its normal operations. The AQMD's management believes that any liability that may arise from the ultimate resolution of such legal actions will not have a material adverse impact on the financial position as of June 30, 2002.

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2002

- Zero Emission Vehicle Incentive Program – Established in FY 2001 to administer the State funds set aside for the implementation of the Zero Emission Vehicle (ZEV) Incentive Program.
- AES Settlement Projects Fund – Established in FY 2001 for the purpose of accounting for the one-time penalty settlement with AES Corporation for air pollution violations.
- Rule 1309.1 Priority Reserve Fund – Established in FY 2001 to account for mitigation fees paid for PM₁₀ credits. Due to the state energy crisis, Rule 1309.1 was amended to allow new electric generating facilities temporary access to AQMD's Priority Reserve Account to offset their PM₁₀ (Particulate Matter ≤ 10 microns) emission increases provided that they meet specific criteria and pay appropriate mitigation fees.)
- CARB ERC Bank Fund – Established in FY 2001 to account for the proceeds from the issuance of the Emission Reduction Credits (ERCs) to natural gas turbine power plant peaker units. At the direction of the Governor, the California Air Resources Board (CARB) established the ERC Bank for peaker power plants that need emission offsets to add new or expanded capacity. Proceeds from the issuance of these ERCs will fund emission reduction programs where the new or expanded facility is located.
- LADWP Settlement Projects Fund – Established in FY 2001 for the purpose of accounting for the monies received from the Los Angeles Department of Water and Power as part of the settlement agreement.
- Natural Gas Vehicle Partnership Fund – established during fiscal year 2002 for creation of the Natural Gas Vehicle Partnership to facilitate the advancement of natural gas vehicle technology and deployment. The contributions received from participating members are accounted for under this fund as well as the expenditures for activities and projects selected by the Partnership.

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

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2002

Non-major Governmental Funds

Special Revenue Funds:

- Air Quality Studies Fund - Used to account for contributions made by outside organizations to fund various air quality studies. Recommendations as to the types of studies to be undertaken are made by an independent Planning Review Panel. The Executive Officer approves all studies prior to funding. The purpose of the studies is to obtain better quantification of the cost effectiveness of air pollution control measures.
- Air Toxics Fund - Used to account for fees received from industrial toxic air emitters. These funds are used for planning and performing health risk evaluations for the purpose of developing a toxic emissions inventory for the South Coast Air Basin.
- Advanced Technology, Outreach and Education Fund – Used to account for monies contributed by companies in lieu of paying fines for violating AQMD rules. Contributed amounts must be used to pay costs associated with AQMD-sponsored research and development in cleaner burning fuels and other advanced technologies; and public outreach and education related to advanced technology and air pollution and its impacts.
- Air Quality Assistance Fund - Used to account for funds set aside for the purpose of underwriting, guaranteeing, or otherwise participating in the provision of financial assistance to small businesses as required by Section 40448.7 of the California Health and Safety Code. (This section was repealed by its own terms January 1, 1999). In June 2000, the Governing Board authorized staff to revise the program to improve participation of small businesses. Certain revisions including participation in the California Capital Access Program (CalCAP) to assist small businesses were implemented in June 2001.
- Air Quality Improvement Fund - Used to account for 40 percent of the revenue received by the AQMD from motor vehicle registration fees under the provisions of Section 44243 and 44244 of the California Health and Safety Code. This money is distributed on a quarterly basis to cities and counties within the AQMD to implement programs to reduce air pollution from motor vehicles.
- Fuel Cells Conference Fund - Used to account for monies paid to fund the biennial International Conference on Fuel Cells.

OTHER SUPPLEMENTARY INFORMATION

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

The AQMD has a comprehensive budget process which establishes goals and objectives and monitors progress in meeting those goals and objectives.

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

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

The AQMD's annual budget is adopted for the General Fund at the Major Object level. The Governing Board has delegated expenditure authority to the Executive Officer for all budgeted expenditures of \$50,000 or less within a Major Object. All appropriations to the budget and transfers between major objects must be approved by the Governing Board. Transfers within a major object are delegated to the Executive Officer. Monthly expenditure reports by Office are issued along with detailed semi-annual reports to the Governing Board regarding contract expenditures. A year-end report to the Governing Board on all budget transfers and Board appropriations is also presented annually.

The AQMD presents a comparison of annual budget to actual results for the General Fund. The budgeted 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 during the fiscal year which were based upon new or additional revenue sources. Supplemental appropriations in expenditures of \$7,054,110 and revenues of \$6,600,174 were approved by the Governing Board in FY 2001-02.

NOTE 2 – GENERAL FUND BUDGETARY BASIS RECONCILIATION

The General Fund Budgetary Basis on page 51 presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing expenditures data on a budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of differences is presented below for the year ended June 30, 2002.

Expenditures and encumbrances (budgetary basis), June 30, 2002	\$ 95,837,849
Add payments on encumbrances open at July 1, 2001	3,987,341
Less encumbrances open at June 30, 2002	<u>(7,442,763)</u>
Expenditures (GAAP basis), June 30, 2002	<u>\$92,382,427</u>

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

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 General Fund
 Budgetary Comparison Schedule
 For the Year ended June 30, 2002

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Emission fees	\$ 22,541,300	\$ 22,541,300	\$ 23,542,903	\$ 1,001,603
Annual operating fees	25,591,100	25,591,100	26,192,638	601,538
Permit fees	11,789,800	11,789,800	13,961,148	2,171,348
Clean fuels mobile / stationary sources	13,789,300	15,129,940	15,892,754	762,814
Air toxics	1,288,000	1,413,000	1,413,000	0
Transportation	839,900	839,900	664,733	(175,167)
State subvention	6,100,000	6,100,000	6,053,883	(46,117)
Federal grant	4,700,000	7,446,620	6,531,262	(915,358)
State grant	-	177,100	805,906	628,806
Interest	2,628,000	2,628,000	1,605,953	(1,022,047)
Lease revenue	212,800	212,800	231,099	18,299
Source test/analysis fees	269,200	269,200	308,169	38,969
Hearing Board	466,600	466,600	319,969	(146,631)
Penalties/settlements	4,500,000	4,500,000	4,559,936	59,936
Subscriptions	50,000	50,000	55,628	5,628
Other revenue	1,315,830	3,526,644	760,551	(2,766,093)
Amounts available for appropriation	<u>96,081,830</u>	<u>102,682,004</u>	<u>102,899,532</u>	<u>217,528</u>
Expenditures:				
Salary & employee benefits				
Salaries	53,737,262	54,559,887	51,256,729	3,303,158
Employee benefits	10,325,328	10,326,538	10,393,448	(66,910)
Total	<u>64,062,590</u>	<u>64,886,425</u>	<u>61,650,177</u>	<u>3,236,248</u>
Services & supplies				
Insurance	1,064,721	1,347,143	1,127,757	219,386
Rent	1,146,667	912,460	736,006	176,454
Supplies	2,918,069	3,614,284	3,123,982	490,302
Contract and special services	10,151,852	14,850,942	13,459,030	1,391,912
Maintenance	1,229,601	1,274,276	1,030,532	243,744
Travel and auto	534,950	508,742	437,566	71,176
Utilities	1,963,502	1,761,002	1,633,992	127,010
Communications	785,700	797,400	524,955	272,445
Uncollectible accounts	-	14,000	13,917	83
Other	896,055	995,943	660,950	334,993
Principal	5,695,000	5,692,052	5,695,000	(2,948)
Interest	3,856,623	3,859,571	3,859,569	2
Total	<u>30,242,540</u>	<u>35,627,815</u>	<u>32,303,256</u>	<u>3,324,559</u>
Capital outlays				
Transfers out	1,776,700	2,621,700	1,859,416	762,284
Total charges to appropriations	<u>96,081,830</u>	<u>103,135,940</u>	<u>95,837,849</u>	<u>7,298,091</u>
Fund balance, June 30, 2002	\$ -	\$ (453,936)	\$ 7,061,683	\$ 7,515,619

See accompanying notes to general purpose financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 June 30, 2002

	Special Revenue			
<u>Assets</u>	<u>Air Quality Studies Fund</u>	<u>Air Toxics Fund</u>	<u>Advanced Technology Fund</u>	<u>Air Quality Assistance Fund</u>
Cash and cash equivalents	\$ 50,542	\$ 1,365,943	\$ 615,997	\$ 1,802,533
Interest receivable	338	7,974	4,526	11,284
Due from other governmental agencies			42,105	
Accounts receivable		<u>1,063,203</u>		<u>505,572</u>
Total assets	<u>\$ 50,880</u>	<u>\$ 2,437,120</u>	<u>\$ 662,628</u>	<u>\$ 2,319,389</u>
<u>Liabilities and fund balances</u>				
Liabilities:				
Accounts payable & accrued liabilities	\$	\$ 73,773	\$ 134,545	\$ 27,950
Due to other funds		<u>902,213</u>		
Total liabilities	<u>-</u>	<u>975,986</u>	<u>134,545</u>	<u>27,950</u>
Fund balances:				
Reserved for encumbrances			168,491	
Unreserved fund balance	<u>50,880</u>	<u>1,461,134</u>	<u>359,592</u>	<u>2,291,439</u>
Total fund balances	<u>50,880</u>	<u>1,461,134</u>	<u>528,083</u>	<u>2,291,439</u>
Total liabilities and fund balances	<u>\$ 50,880</u>	<u>\$ 2,437,120</u>	<u>\$ 662,628</u>	<u>\$ 2,319,389</u>

See independent auditor's report.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS.
 June 30, 2002

<u>Assets</u>	Special Revenue				
	Air Quality Improvement Fund	Fuel Cells Conference Fund	Zero Emission Vehicle Incentive Fund	AES Settlement Projects Fund	Rule 1309.1 Priority Reserve Fund
Cash and cash equivalents	\$ 1,672,099	\$	\$ 2,000,000	\$ 8,511,753	\$ 7,429,990
Interest receivable	22,251		72,246	58,061	53,640
Due from other governmental agencies	3,073,756				
Accounts receivable					
Total assets	\$ 4,768,106	\$ -	\$ 2,072,246	\$ 8,569,814	\$ 7,483,630
 <u>Liabilities and fund balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	\$	\$	\$	\$ 155,000	\$ 115,000
Due to other funds					
Total liabilities	-	-	-	155,000	115,000
 Fund balances:					
Reserved for encumbrances				5,693,645	710,000
Unreserved fund balance	4,768,106		2,072,246	2,721,169	6,658,630
Total fund balances	4,768,106	-	2,072,246	8,414,814	7,368,630
 Total liabilities and fund balances	 \$ 4,768,106	 \$ -	 \$ 2,072,246	 \$ 8,569,814	 \$ 7,483,630

See independent auditor's report.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 June 30, 2002

Special Revenue					
<u>Assets</u>	CARB ERC Bank Fund	LADWP Settlement Fund	Natural Gas Vehicle Partner Fund	Capital Projects Fund	Total
Cash and cash equivalents	\$ 842,459	\$ 867,530	\$ 160,495	\$ -	\$ 25,319,341
Interest receivable	5,629	6,045	397	-	242,391
Due from other governmental agencies	-	-	-	-	3,115,861
Accounts receivable	-	23,157	187,500	-	1,779,432
Total assets	\$ 848,088	\$ 896,732	\$ 348,392	\$ -	\$ 30,457,025
<u>Liabilities and fund balances</u>					
Liabilities:					
Accounts payable & accrued liabilities	-	22,083	1,520	-	529,871
Due to other funds	-	-	-	-	902,213
Total liabilities	-	22,083	1,520	-	1,432,084
Fund balances:					
Reserved for encumbrances	-	730,218	-	-	7,302,354
Unreserved fund balance	848,088	144,431	346,872	-	21,722,587
Total fund balances	848,088	874,649	346,872	-	29,024,941
Total liabilities and fund balances	\$ 848,088	\$ 896,732	\$ 348,392	\$ -	\$ 30,457,025

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, 2002

	Special Revenue			
	Air Quality Studies Fund	Air Toxics Fund	Advanced Technology Fund	Air Quality Assistance Fund
Revenues:				
Mobile sources	\$	\$	\$	\$
State grant			42,105	
Emission reduction fees				
Interest	1,730	104,207	29,857	67,423
Penalties & settlements				
Other revenue				
Total revenues	<u>1,730</u>	<u>104,207</u>	<u>71,962</u>	<u>67,423</u>
Expenditures:				
Contract and special services		215,138	358,099	131,222
Other operating expenditures		209,685	150,000	
Capital outlays				
Uncollectible accounts receivable		86,862		
Total expenditures	<u>-</u>	<u>511,685</u>	<u>508,099</u>	<u>131,222</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,730</u>	<u>(407,478)</u>	<u>(436,137)</u>	<u>(63,799)</u>
Other financing sources - transfers				
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>1,730</u>	<u>(407,478)</u>	<u>(436,137)</u>	<u>(63,799)</u>
Fund balances, June 30, 2001	<u>49,150</u>	<u>1,868,612</u>	<u>964,220</u>	<u>2,355,238</u>
Fund balances, June 30, 2002	<u>\$ 50,880</u>	<u>\$ 1,461,134</u>	<u>\$ 528,083</u>	<u>\$ 2,291,439</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, 2002

	Special Revenue				
	Air Quality Improvement Fund	Fuel Cells Conference Fund	Zero Emission Vehicle Incentive Fund	AES Settlement Projects Fund	Rule 1309.1 Priority Reserve Fund
Revenues:					
Mobile sources	\$ 17,403,623	\$	\$	\$	\$
State grant					
Emission reduction fees					2,300,000
Interest	107,894		72,246	635,555	310,093
Penalties & settlements					
Other revenue					
Total revenues	<u>17,511,517</u>	<u>-</u>	<u>72,246</u>	<u>635,555</u>	<u>2,610,093</u>
Expenditures:					
Contract and special services		50,001		5,264,344	3,841,463
Other operating expenditures	17,238,375			771	
Capital outlays					
Uncollectible accounts receivable					
Total expenditures	<u>17,238,375</u>	<u>50,001</u>	<u>-</u>	<u>5,265,115</u>	<u>3,841,463</u>
Excess (deficiency) of revenues over (under) expenditures	<u>273,142</u>	<u>(50,001)</u>	<u>72,246</u>	<u>(4,629,560)</u>	<u>(1,231,370)</u>
Other financing sources - transfers				16,149	
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,149</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>273,142</u>	<u>(50,001)</u>	<u>72,246</u>	<u>(4,613,411)</u>	<u>(1,231,370)</u>
Fund balances, June 30, 2001	<u>4,494,964</u>	<u>50,001</u>	<u>2,000,000</u>	<u>13,028,225</u>	<u>8,600,000</u>
Fund balances, June 30, 2002	<u>\$ 4,768,106</u>	<u>\$ -</u>	<u>\$ 2,072,246</u>	<u>\$ 8,414,814</u>	<u>\$ 7,368,630</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, 2002

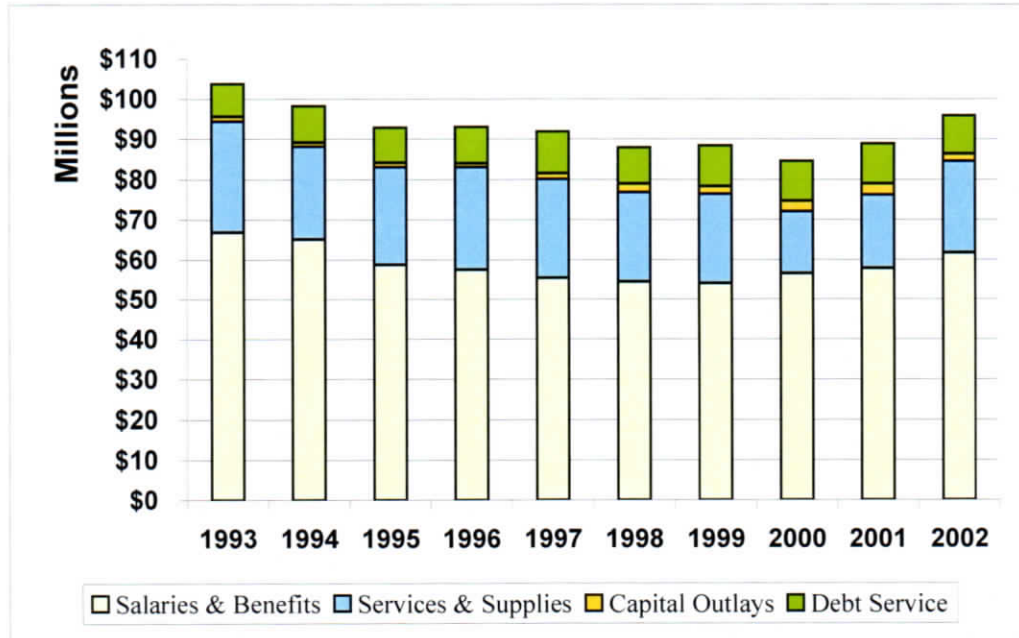
	Special Revenue				Total
	CARB ERC Bank Fund	LADWP Settlement Fund	Natural Gas Vehicle Partner Fund	Capital Projects Fund	
Revenues:					
Mobile sources	\$	\$	\$	\$	\$ 17,403,623
State grant					42,105
Emission reduction fees					2,300,000
Interest	28,037	33,685	397		1,391,124
Penalties & settlements		23,157			23,157
Other revenue	399,000		350,000	491,299	1,240,299
Total revenues	<u>427,037</u>	<u>56,842</u>	<u>350,397</u>	<u>491,299</u>	<u>22,400,308</u>
Expenditures:					
Contract and special services		164,100			10,024,367
Other operating expenditures			3,525		17,602,356
Capital outlays		22,083		491,299	513,382
Uncollectible accounts receivable					86,862
Total expenditures	<u>-</u>	<u>186,183</u>	<u>3,525</u>	<u>491,299</u>	<u>28,226,967</u>
Excess (deficiency) of revenues over (under) expenditures	<u>427,037</u>	<u>(129,341)</u>	<u>346,872</u>	<u>-</u>	<u>(5,826,659)</u>
Other financing sources - transfers					16,149
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,149</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>427,037</u>	<u>(129,341)</u>	<u>346,872</u>	<u>-</u>	<u>(5,810,510)</u>
Fund balances, June 30, 2001	<u>421,051</u>	<u>1,003,990</u>	<u>-</u>	<u>-</u>	<u>34,835,451</u>
Fund balances, June 30, 2002	<u>\$ 848,088</u>	<u>\$ 874,649</u>	<u>\$ 346,872</u>	<u>\$ -</u>	<u>\$ 29,024,941</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



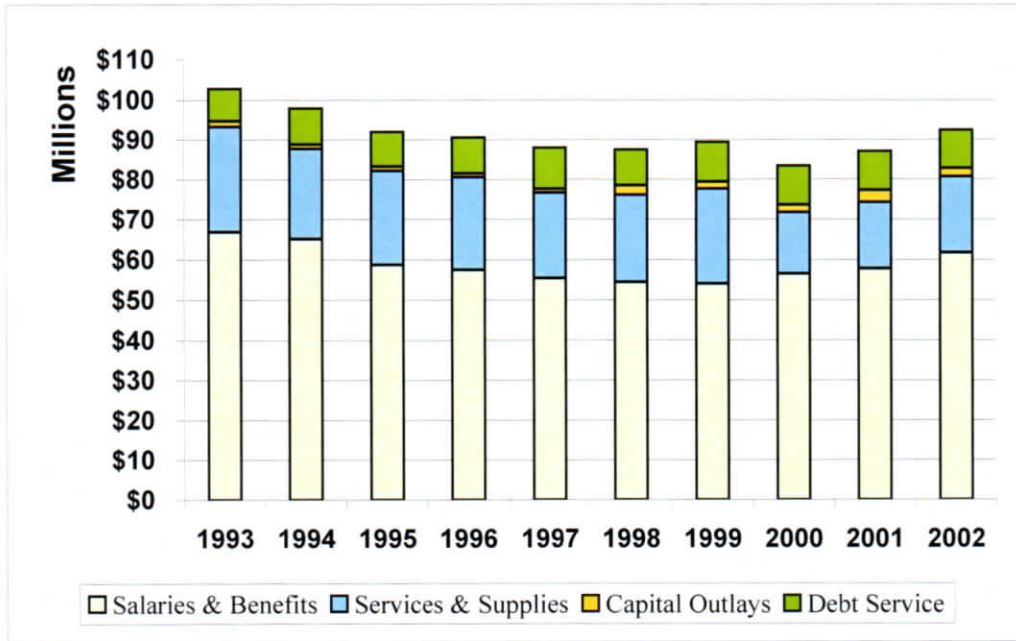
Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1993	\$66,827,142	\$27,559,219	\$1,229,531	\$8,060,238	\$103,676,130
1994	65,067,503	23,051,521	1,049,013	9,045,087	98,213,124
1995	58,674,463	24,296,234	1,106,090	8,759,894	92,836,681
1996	57,394,804	25,567,685	971,499	9,061,432	92,995,420
1997	55,391,589	24,694,376	1,377,936	10,356,011	91,819,912
1998	54,400,689	22,365,484	2,139,131	8,981,803	87,887,107
1999	53,982,139	22,428,955	1,916,009	10,006,526	88,333,629
2000	56,450,869	15,541,026	2,639,293	9,857,197	84,488,385
2001	57,712,043	18,438,222	2,778,896	9,852,641	88,781,802
2002	61,650,177	22,773,687	1,859,416	9,554,569	95,837,849

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

Source: South Coast Air Quality Management District Audited Financial Statements

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

Last Ten Fiscal Years



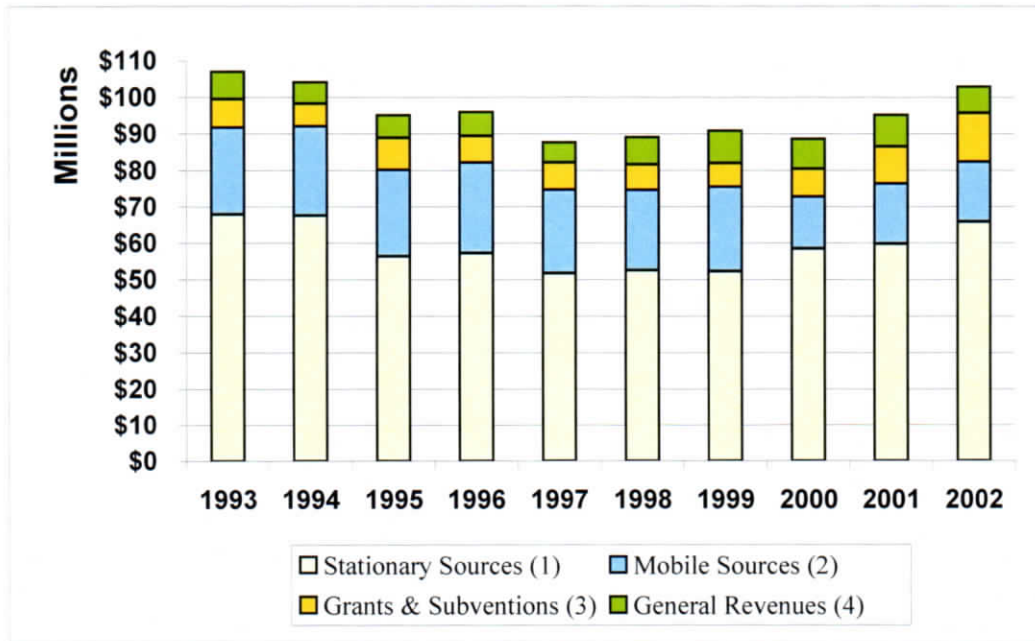
Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Debt Service	Total Expenditures
1993	\$66,827,142	\$26,412,315	\$1,450,461	\$8,060,238	\$102,750,156
1994	65,067,503	22,606,253	1,163,280	9,045,087	97,882,123
1995	58,674,463	23,432,563	1,094,369	8,759,894	91,961,289
1996	57,394,804	23,121,644	962,396	9,061,432	90,540,276
1997	55,391,589	21,214,777	999,917	10,356,011	87,962,294
1998	54,400,689	21,702,940	2,353,895	8,981,803	87,439,327
1999	53,982,139	23,638,243	1,743,935	10,006,526	89,370,843
2000	56,450,869	15,238,185	1,914,777	9,811,596	83,415,427
2001	57,712,043	16,517,122	2,998,691	9,852,641	87,080,497
2002	61,650,177	18,967,367	2,142,659	9,597,224	92,357,427

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

Source: South Coast Air Quality Management District Audited Financial Statements

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

Last Ten Fiscal Years



Year	Stationary Sources (1)	Mobile Sources (2)	Grants & Subventions (3)	General Revenues (4)	Total Revenues
1993	\$67,836,344	\$23,902,732	\$7,752,002	\$7,537,287	\$107,028,365
1994	67,493,294	24,533,549	6,226,212	5,854,674	104,107,729
1995	56,309,661	23,790,303	8,750,276	6,242,214	95,092,454
1996	57,167,782	24,953,462	7,282,945	6,594,004	95,998,193
1997	51,675,393	22,903,017	7,562,549	5,510,088	87,651,047
1998	52,437,988	22,106,384	7,046,503	7,488,832	89,079,707
1999	52,179,703	23,259,971	6,500,145	8,884,650	90,824,469
2000	58,401,760	14,291,583	7,685,252	8,211,387	88,589,982
2001	59,741,735	16,520,766	10,271,201	8,672,885	95,206,587
2002	65,737,827	16,557,487	13,391,051	7,213,167	102,899,532

- (1) Includes Emissions, Annual Operating and Permit fees
- (2) Includes AB2766 Mobile Source, Clean Fuels, and Transportation Program revenues
- (3) Includes State Subventions and Federal Grants
- (4) Includes Penalties and Settlements, Miscellaneous Source and Interest

Notes:

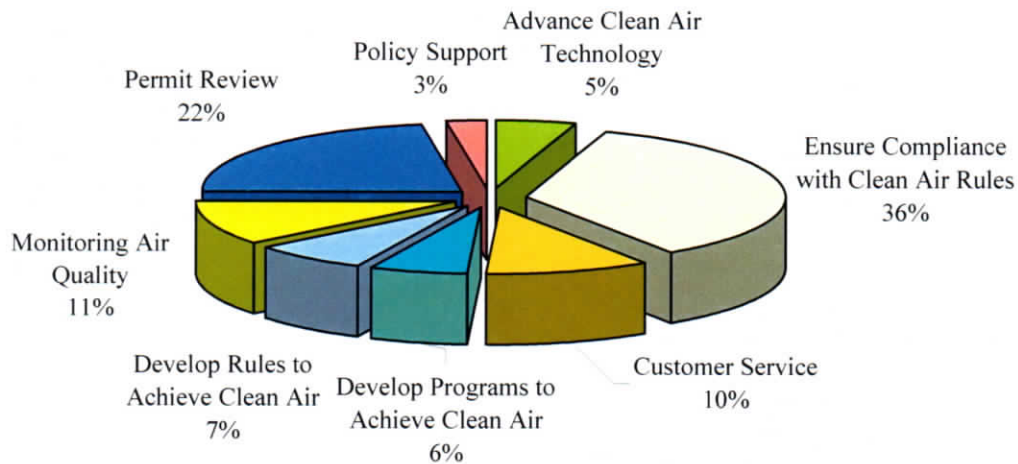
The decrease in Mobile Sources revenue in Fiscal Year 1999-00 is due to the creation of a special Clean Fuels fund in September 1999 once the fund was re-authorized.

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

Source: South Coast Air Quality Management District Audited Financial Statements

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
EXPENDITURES BY PROGRAM ACTIVITY
GENERAL FUND (GAAP BASIS)**

FY 2001-02



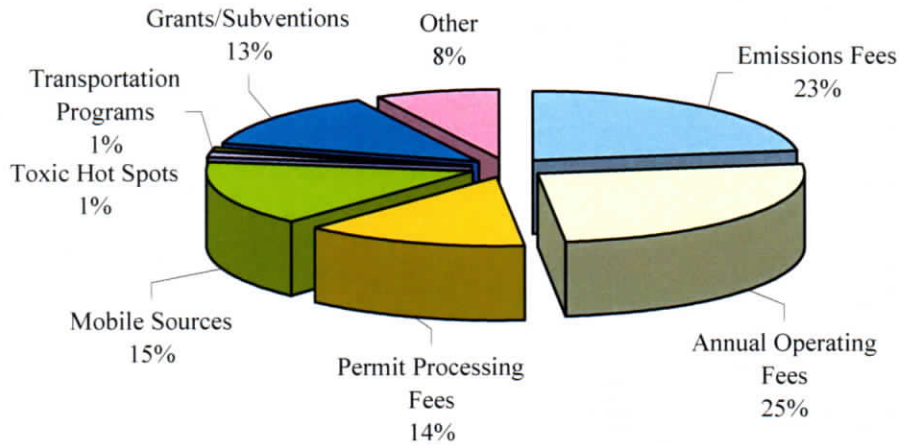
- | | |
|---|---|
| ■ Advance Clean Air Technology | ■ Ensure Compliance with Clean Air Rules |
| ■ Customer Service | ■ Develop Programs to Achieve Clean Air |
| ■ Develop Rules to Achieve Clean Air | ■ Monitoring Air Quality |
| ■ Permit Review | ■ Policy Support |

Program Activity	Expenditures
Advance Clean Air Technology	\$4,581,512
Ensure Compliance with Clean Air Rules	32,873,435
Customer Service	9,534,670
Develop Programs to Achieve Clean Air	5,728,326
Develop Rules to Achieve Clean Air	6,656,673
Monitoring Air Quality	9,911,110
Permit Review	20,726,216
Policy Support	2,345,485
Total	\$92,357,427

Notes: Historically, the South Coast Air Quality Management District has reported expenditures by program activity on a budgetary basis, therefore, 10 years of data stated on the GAAP basis is not available. For purposes of this report, one year of Governmental Fund data (General Fund only) was converted to the GAAP basis.

Source: South Coast Air Quality Management District Work Program Tracking Report

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
REVENUES BY SOURCE
GENERAL FUND
FY 2001-02**



Emissions Fees	Annual Operating Fees	Permit Processing Fees	Mobile Sources
Toxic Hot Spots	Transportation Programs	Grants/Subventions	Other

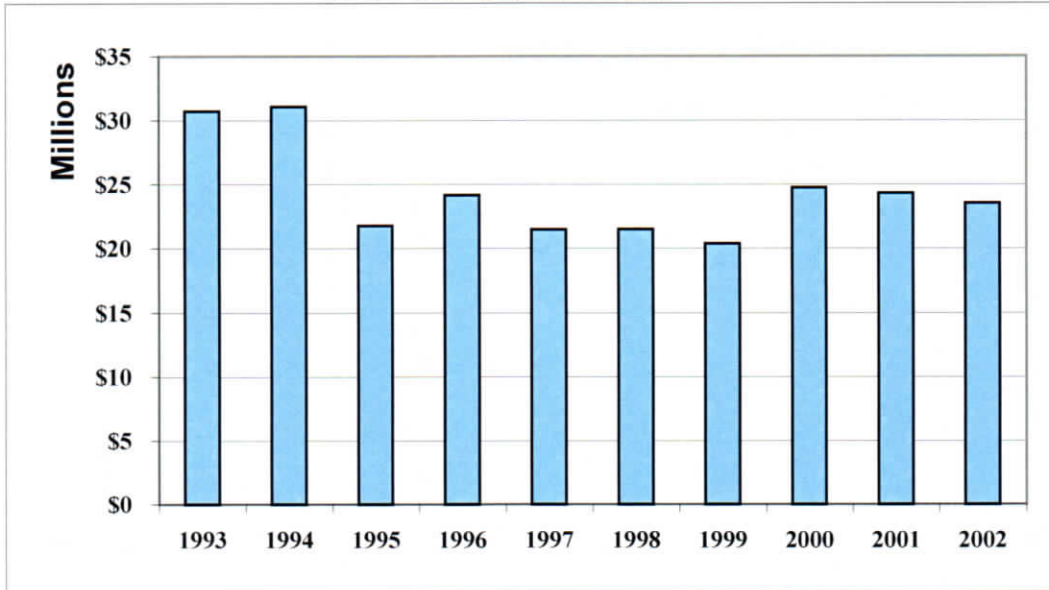
Source	Revenue
Emissions Fees	\$23,542,903
Annual Operating Fees	26,192,638
Permit Processing Fees	13,961,148
Mobile Sources	15,892,754
Toxic Hot Spots	1,413,000
Transportation Programs	664,733
Grants/Subventions	13,391,051
Other	7,841,305
Total	\$102,899,532

Notes: Other includes Penalties and Settlements, Miscellaneous Source and Interest.

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
1993	\$30,735,195
1994	31,079,128
1995	21,774,966
1996	24,177,360
1997	21,471,830
1998	21,497,065
1999	20,387,407
2000	24,755,365
2001	24,318,240
2002	23,542,903

Source: South Coast Air Quality Management District Audited Financial Statements

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

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

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

Before World War II, Los Angeles County was one of the nation's foremost agricultural producers. As agricultural production declined, the economy has evolved into diverse areas that include finance and business services, health services, tourism and entertainment, electronics, apparel, retail and wholesale distribution, and international trade.

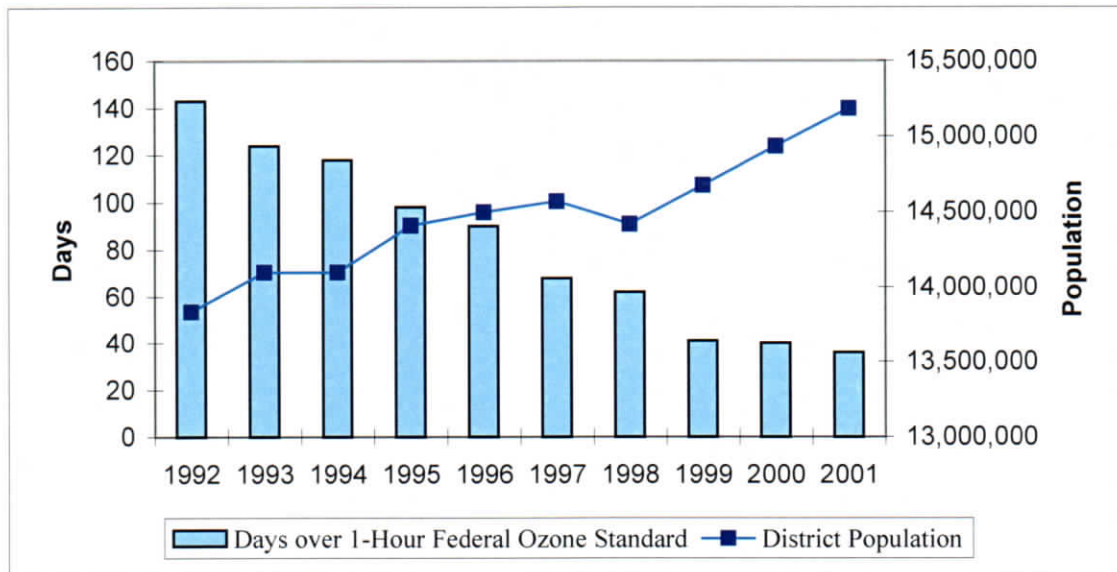
Orange County is the second most populated county in the state and lies south of Los Angeles County. When created in 1889, Orange County was named for its abundance of orange groves and thriving agricultural industry. Today, the economy is dominated by services, trade and manufacturing and numerous industries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

Riverside County is the fourth largest county in the state and the varied topography is characterized by fertile river valleys to rolling plains and foothills to deserts below sea level and mountain peaks above 10,000 feet. Riverside County's economy is driven by services, retail trade, government and agriculture. The county is one of the top ten leading agricultural counties in the state and is a major distribution center for Southern California and the Pacific Rim.

Roughly 90 percent of *San Bernardino County* is desert and the remaining portion consists of the San Bernardino Valley and San Bernardino Mountains. San Bernardino County and Riverside County are collectively known as the Inland Empire and have similar economies that are lead by services, retail trade and government. Like Riverside County, San Bernardino County is one of the top ten leading agricultural counties in the state and serves as a major distribution center for Southern California and the Pacific Rim. All four counties within the South Coast Air Quality Management District's jurisdiction have experienced significant population growth in the last few years.

The following charts illustrate air pollution, demographic, employment and motor vehicle information about the South Coast Air Quality Management District region.

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



Year	Days over 1-Hour Federal Ozone Standard	District Population
1992	143	13,836,454
1993	124	14,100,990
1994	118	14,100,990
1995	98	14,410,318
1996	90	14,497,361
1997	68	14,570,394
1998	62	14,418,809
1999	41	14,676,671
2000	40	14,934,529
2001	36	15,184,359

Notes:

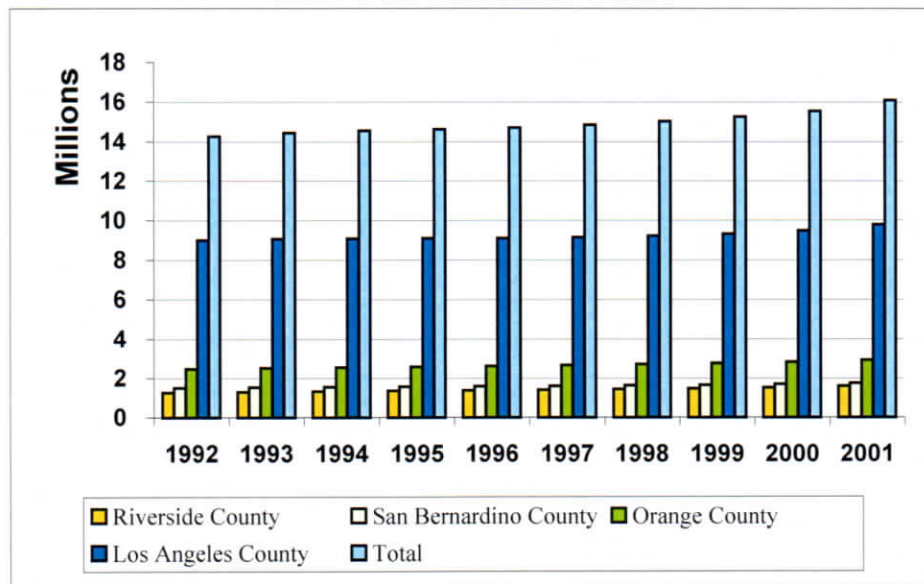
- The average number of days in the Basin exceeding the federal standard over the three-year period of 1999-01 decreased by 80% for ozone and by 97% for carbon monoxide from the 1976-78 period.
- The average number of days in the Basin exceeding the federal PM10 standard decreased by 86% between the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

Source: Days Over 1-Hour Federal Ozone Standard - AQMD Website (www.aqmd.gov);
Population - Department of Finance -Population Research

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
1992	1,275,500	1,516,400	2,485,200	9,008,000	14,285,100	-
1993	1,312,300	1,546,400	2,531,100	9,072,200	14,462,000	1.24%
1994	1,340,200	1,561,900	2,563,100	9,095,200	14,560,400	0.68%
1995	1,365,500	1,573,900	2,590,100	9,103,900	14,633,400	0.50%
1996	1,391,800	1,590,800	2,625,300	9,104,700	14,712,600	0.54%
1997	1,420,600	1,613,500	2,672,800	9,147,100	14,854,000	0.96%
1998	1,451,400	1,637,900	2,724,500	9,225,800	15,039,600	1.25%
1999	1,490,500	1,666,600	2,776,100	9,330,100	15,263,300	1.49%
2000	1,533,800	1,701,700	2,829,800	9,487,400	15,552,700	1.90%
2001	1,609,400	1,764,300	2,925,700	9,802,800	16,102,200	3.53%

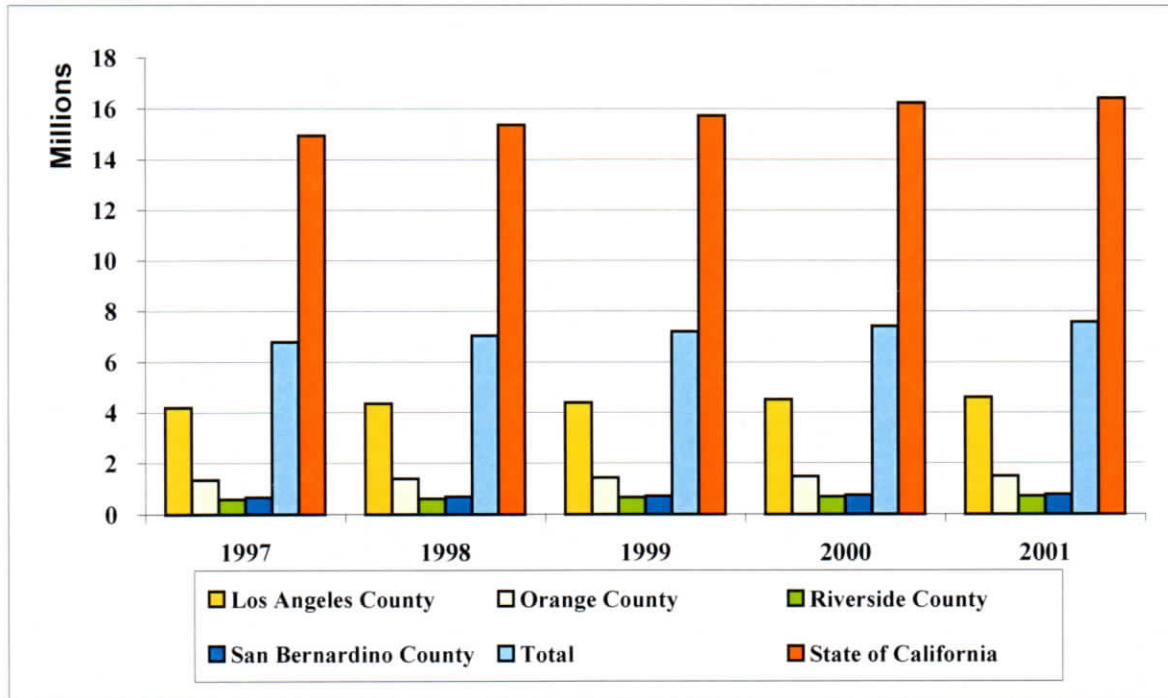
Notes: The AQMD encompasses all of Orange County and parts of the Los Angeles, Riverside and San Bernardino Counties, representing over 15 million residents.

Source: California State 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 Five Calendar Years

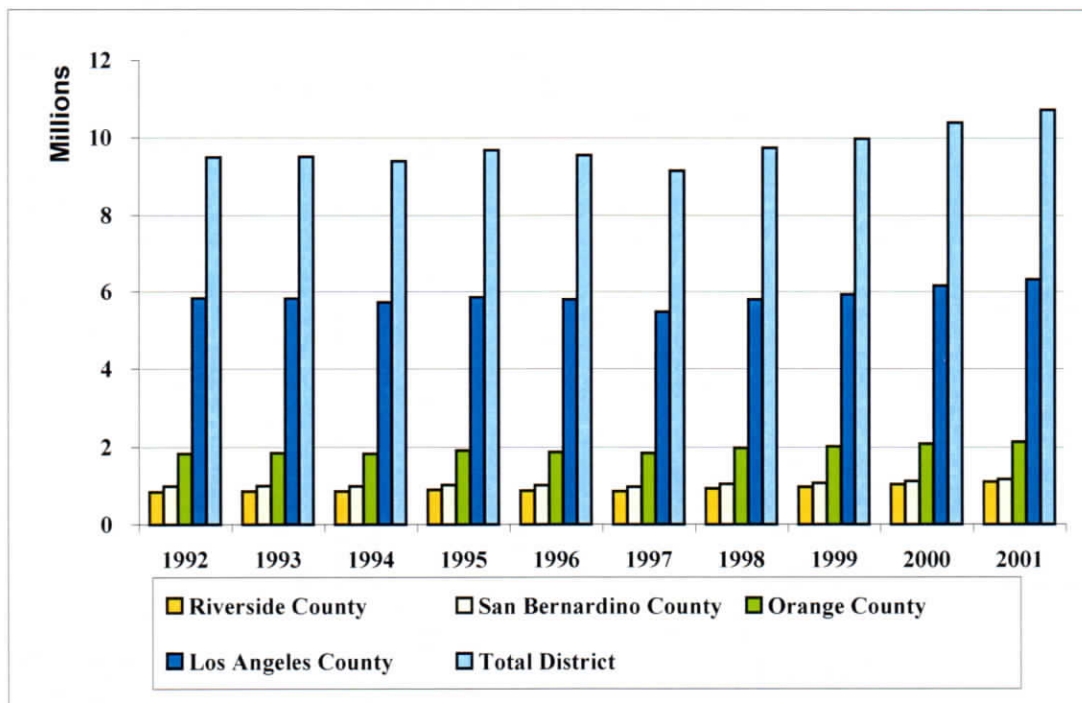


Year	Los Angeles County	Orange County	Riverside County	San Bernardino County	Total	State of California
1997	4,184,800	1,339,900	594,800	664,400	6,783,900	14,942,500
1998	4,343,300	1,393,700	619,600	684,200	7,040,800	15,367,500
1999	4,389,300	1,432,700	658,500	718,000	7,198,500	15,731,700
2000	4,506,100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

Source: South Coast Air Quality Management District Building Corporation Installment Sale Revenue Bonds Refunding Series 2002

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

Last Ten Calendar Years



Year	Riverside County	San Bernardino	Orange County	Los Angeles County	Total District
1992	840,221	990,008	1,835,716	5,824,169	9,490,114
1993	852,650	993,407	1,847,454	5,815,784	9,509,295
1994	852,912	987,191	1,836,104	5,717,373	9,393,580
1995	891,894	1,020,972	1,917,597	5,853,340	9,683,803
1996	873,251	1,007,310	1,874,855	5,791,836	9,547,252
1997	854,963	971,743	1,850,067	5,474,649	9,151,422
1998	928,902	1,040,583	1,983,612	5,796,505	9,749,602
1999	972,920	1,070,746	2,019,066	5,926,920	9,989,652
2000	1,038,067	1,118,158	2,091,397	6,155,565	10,403,187
2001	1,100,221	1,168,442	2,140,909	6,323,102	10,732,674

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 10.5 million for 2001.

Source: California Department of Motor Vehicles

South Coast Air Quality Management District

Demographic and Miscellaneous Statistics

Established:	February 1, 1977
Area Covered:	10,743 Square Miles
Counties Included in District:	All of Orange County and parts of Los Angeles, Riverside, and San Bernardino Counties
Population:	15,184,359 (In 2001)
Transportation:	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
Visitor Destinations:	Disneyland, Knott's Berry Farm, Magic Mountain, motion picture and television studios and the Rose Bowl.
Number of Registered Vehicles:	10,470,716 (In 2001)
Average Daily Vehicle Miles Traveled:	32
Stationary Sources of Air Pollution Regulated	Oil Refineries, power plants, paint spray booths, incinerators, manufacturing facilities, dry cleaners, and service stations
Number of Sources:	Over 27,000 operating locations with more than 77,000 permits
Number of Air Monitoring Stations:	35
SCAQMD Full-time Authorized Positions:	814
Adopted FY 2002-03 Budget:	\$99,156,515
Key Federal, State, and Local Air Agencies	EPA Region IX (Environmental Protection Agency) (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. Last Stage 1 episode recorded.
- **2000** AQMD adopts Air Toxics Control Plan and first series of Clean Fleet Rules.
- **2010** Projected achievement of current air quality health standards.



**South Coast
Air Quality Management District**

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