We are pleased to present the South Coast Air Quality Management District’s (SCAQMD) Popular Annual Financial Report (PAFR) for the fiscal year ending June 30, 2008. This report makes our District’s finances easier to understand, and is intended to communicate our financial situation in an open and accountable manner.

The PAFR is intended to summarize the financial activities of the AQMD and was drawn from the financial information appearing in the 2008 Comprehensive Annual Financial Report (CAFR). The PAFR is unaudited; however, the financial data presented in the PAFR is derived from the CAFR and is consistent with generally accepted accounting principles. The PAFR can also be reviewed on AQMD’s website at www.aqmd.gov/finn/PAFR2008.pdf.

For more detailed financial information, or information on the AQMD’s component unit (SCAQMD Building Corporation which is not included in this document) a copy of the Comprehensive Annual Financial Report is available for interested users from Finance at 21865 Copley Drive, Diamond Bar, CA 91765. It can also be viewed on the AQMD’s website at www.aqmd.gov/finn/CAFR2008.pdf.

Questions, comments and feedback regarding this report are encouraged, so please do not hesitate to contact the Chief Financial Officer at 909-396-2828 or at rpearce@aqmd.gov.

Respectfully submitted,

Patrick H. Pearce, CGFM
Chief Financial Officer

ABOUT THE DISTRICT

The South Coast Air Quality Management District began operation on February 1, 1977 as a regional governmental agency established by the California Legislature pursuant to the Lewis Air Quality Management Act. The AQMD encompasses all of Orange County and parts of Los Angeles, San Bernardino and Riverside Counties, representing over 16 million residents. It succeeded the Southern California Air Pollution Control District and its predecessor four county air pollution control districts, of which the Los Angeles County Air Pollution Control District was the oldest in the nation, having been formed in 1947.

The AQMD Governing Board is composed of 13 members (one additional member added in January 2008) 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 three representatives, one from the City of Los Angeles and one each from the western and eastern portions of the county.
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: 16,730,092 (In 2007)

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

Number of Registered Vehicles Within AQMD Jurisdiction:

12,370,990 (In 2007)

Average Daily Miles Traveled Per Vehicle: 33 (CY 2007 data)

Examples of Stationary Sources of Air Pollution Regulated:

Oil Refineries, power plants, paint spray booths, manufacturing facilities, dry cleaners, and service stations.

Number of Sources:

Over 28,400 operating locations with approximately 76,500 permits.

Number of Air Monitoring Stations: 35

Full-time Authorized Positions: 850

Key Federal, State, and Local Air Agencies:

EPA Region IX (Environmental Protection Agency), CARB (California Air Resources Board), CAPCOA (California Air Pollution Control Officer’s Association), NACAA (National Association of Clean Air Agencies), ALAPCO (Association of Local Air Pollution Control Officials).

There are 35 local air pollution control districts in California.
Since the late 1940s when the war on smog began, the region’s population has tripled from 4.8 million to over 16 million; the number of motor vehicles more than quadrupled from 2.3 million to 12.4 million; and the area has grown into one of the most prosperous regions of the world. This phenomenal economic growth illustrates that pollution control and strong economic growth can coincide.
AIR QUALITY

• **Multiple Air Toxics Exposure Study (MATES III)**

The MATES III study conducted by AQMD is the latest and most sophisticated air toxic research effort ever conducted in Southern California. It concluded that there was a 15 percent reduction in cancer risk as compared to ten years ago but still one of the highest risks in the country. Diesel exhaust, cars and trucks as well as ships, trains, aircraft and construction equipment account for 94 percent of the total risk.

• **Climate Credit Exchange Program**

Approve the development and implementation of new climate credit exchange program to provide incentives for local businesses to make voluntary reductions. AB 32, the Global Warming Solutions Act of 2006, requires the state’s greenhouse gas emissions be reduced to 1990 levels by 2020.

MONITORING

• **Wildfire Smoke Monitoring Network**

In the wake of last fall’s destructive firestorms, the AQMD implemented a major expansion of its wildfire smoke monitoring network and challenged all schools to fly special color coded flags each school day alerting students of air quality conditions. A full description of the Air Quality Flag Program is on AQMD’s website at http://www.aqmd.gov/ej/pdf/flagbrochure.pdf.

EMISSIONS REDUCTION

• **Clean Vehicle Fleet Rules**

Federal appeals court affirmed the state and local governments’ authority to improve air quality through their actions as market participants which could significantly enhance cleanup efforts nationwide, including those at the ports of Los Angeles and Long Beach.

RENEWABLE ENERGY

• **Solar Energy**

Approved $5.2 million to reduce the need for conventional power generation by installing solar panels and other renewable energy projects on residences and commercial buildings in the region.

• **Tree Planting Projects**

Approved $1 million to co-fund the Million Trees Initiative sponsored by the City of Los Angeles to plant and care for 1 million trees in Los Angeles. A recent study reported that trees have a significant ability to capture fine particles from the air and absorb pollutants such as ozone. It can also help reduce atmospheric carbon dioxide which contributes to global warming.

EMISSIONS REDUCTION INCENTIVE PROGRAMS

• **University Competition to Develop Environmentally Friendly Leaf Vacuum**

Approved $100,000 to university engineering students for developing a zero-emission leaf vacuum for commercial gardeners. This is to encourage equipment manufacturers to produce an environmentally friendly alternative to commercial backpack leaf blowers, which are a significant source of smog-forming emissions and source of compliant due to loud noise and tendency to create large clouds of dust.

• **Dry Cleaner Grant Program**

Provided financial support for Dry Cleaner Grant Program by approving an additional $1 million to help up to 100 dry cleaners transition to non-toxic, non-polluting cleaning technologies.

• **Leaf Blower Exchange Program**

Exchange 1,500 older leaf blowers for a low-polluting and lower-noise model manufactured by STIHL.
Revenues have exceeded expenditures in four out of the last five years due to several significant one-time penalties and settlements for air pollution violations.
Where the Money Came From
Our Revenues & Resources

The AQMD is a fee-supported agency and does not receive the proceeds from taxes. Excluding special funds revenues, which are restricted in their use, the major revenue source for Governmental Activities is stationary sources, which account for approximately 58 percent of the District’s General Fund revenue for the year ended June 30, 2008. Stationary sources of air pollution consist of refineries, power plants, manufacturing facilities and small businesses. The increase in revenue for stationary sources in fiscal year 2007-08 as compared to fiscal year 2006-07 is due to a 10 percent increase in emissions fee, annual operating fees and permit processing fee. However, the impact of this 10 percent increase is less, due to a general decline in emissions.

<table>
<thead>
<tr>
<th>Source</th>
<th>FY 07-08</th>
<th>FY 06-07</th>
<th>FY 05-06</th>
<th>FY 04-05</th>
<th>FY 03-04</th>
<th>FY 02-03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stationary sources</td>
<td>$82,825,774</td>
<td>$75,200,253</td>
<td>$68,792,294</td>
<td>$64,925,373</td>
<td>$61,932,425</td>
<td>$62,835,710</td>
</tr>
<tr>
<td>Mobile sources</td>
<td>22,170,323</td>
<td>23,966,240</td>
<td>20,991,833</td>
<td>14,716,865</td>
<td>10,787,342</td>
<td>10,245,290</td>
</tr>
<tr>
<td>Grants and subventions</td>
<td>8,858,458</td>
<td>8,946,833</td>
<td>8,035,387</td>
<td>8,100,573</td>
<td>9,679,283</td>
<td>7,434,924</td>
</tr>
<tr>
<td>General revenues*</td>
<td>12,579,473</td>
<td>21,421,637</td>
<td>22,853,273</td>
<td>25,178,600</td>
<td>23,479,027</td>
<td>16,732,092</td>
</tr>
<tr>
<td>Special revenues**</td>
<td>105,383,067</td>
<td>92,925,386</td>
<td>94,223,386</td>
<td>87,747,227</td>
<td>60,731,099</td>
<td>81,194,075</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$231,817,095</td>
<td>$222,460,349</td>
<td>$214,896,173</td>
<td>$200,668,638</td>
<td>$166,609,176</td>
<td>$178,442,091</td>
</tr>
</tbody>
</table>

* General Revenues inculde Penalties/Settlements, Interest, and Grants and Subvention dollars that are not restricted to specific programs.

** Special revenues include Carl Moyer, Clean Fuels, Lower Emission School Bus, MSRC.

*** As restated.
Where the Money Went
Our Expenditures & Services

Excluding the special funds expenditures, which are restricted in their use, the three major expenditure functions for Governmental Activities are Compliance, Permitting, and Air Monitoring. Combined, these account for nearly 69 percent of the District’s total General Fund expenditures for the year ended June 30, 2008. In fiscal year 2007-08 the expenses increased as compared to fiscal year 2006-07 due to higher spending in the special revenue funds. Contract expenses are paid in the year services are delivered and could fluctuate from year to year.

<table>
<thead>
<tr>
<th>Activity</th>
<th>FY 07-08</th>
<th>FY 06-07</th>
<th>FY 05-06</th>
<th>FY 04-05</th>
<th>FY 03-04</th>
<th>FY 02-03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance clean air technology</td>
<td>$ 7,113,642</td>
<td>$ 7,067,528</td>
<td>$ 5,808,530</td>
<td>$ 5,011,874</td>
<td>$ 7,255,854</td>
<td>$ 5,933,504</td>
</tr>
<tr>
<td>Ensure compliance with clean air rules</td>
<td>39,463,040</td>
<td>42,699,519</td>
<td>36,727,226</td>
<td>37,666,189</td>
<td>38,536,722</td>
<td>33,440,503</td>
</tr>
<tr>
<td>Customer service</td>
<td>6,696,664</td>
<td>8,687,842</td>
<td>11,592,984</td>
<td>10,532,066</td>
<td>10,965,904</td>
<td>10,035,584</td>
</tr>
<tr>
<td>Develop programs to achieve clean air</td>
<td>7,969,413</td>
<td>8,721,816</td>
<td>7,811,791</td>
<td>7,106,133</td>
<td>7,910,778</td>
<td>6,213,755</td>
</tr>
<tr>
<td>Develop rules to achieve clean air</td>
<td>8,390,762</td>
<td>7,350,795</td>
<td>8,046,177</td>
<td>8,130,305</td>
<td>7,915,483</td>
<td>6,563,362</td>
</tr>
<tr>
<td>Monitoring air quality</td>
<td>12,866,270</td>
<td>12,229,451</td>
<td>11,794,227</td>
<td>11,591,430</td>
<td>11,883,527</td>
<td>10,032,083</td>
</tr>
<tr>
<td>Timely review of permits</td>
<td>24,508,945</td>
<td>24,508,757</td>
<td>23,191,423</td>
<td>21,408,261</td>
<td>18,937,964</td>
<td>18,937,964</td>
</tr>
<tr>
<td>Policy support</td>
<td>3,630,367</td>
<td>3,442,207</td>
<td>2,948,274</td>
<td>2,954,538</td>
<td>2,523,809</td>
<td>2,559,042</td>
</tr>
<tr>
<td>Interest on long-term debt*</td>
<td>4,614,842</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Special funds activities**</td>
<td>$ 93,109,973</td>
<td>62,831,313</td>
<td>64,308,902</td>
<td>59,525,817</td>
<td>62,422,513</td>
<td>94,144,240</td>
</tr>
<tr>
<td>Total</td>
<td>$ 208,435,918</td>
<td>$ 177,539,228</td>
<td>$ 172,229,534</td>
<td>$ 163,922,276</td>
<td>$ 170,822,851</td>
<td>$187,860,037</td>
</tr>
</tbody>
</table>

* Starting FY 07-08, interest on long-term debt is reported as a separate line item and not allocated among the functional activities.

** Special revenues Carl Moyer, Clean Fuels, Lower Emission School Bus, MSRC.

*** Non-operating transfers of $ 9.7 million are not included in this chart.
The Financial Activity Statement, known in Accounting terms as the “Income Statement,” provides the sources (revenues) and uses (expenditures) of providing services for the South Coast Air Quality Management District.

The Financial Position Statement, known in accounting terms as the “Balance Sheet,” provides the financial benefits (assets) available to the AQMD to provide services, while liabilities describes the amount the AQMD owes in providing those services.

Assets over Liabilities provides for the difference between financial benefits and liabilities, ultimately showing the net worth of the South Coast Air Quality Management District.
AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to South Coast Air Quality Management District (SCAQMD) for its Popular Annual Financial Report for the fiscal year ended June 30, 2007. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting Program, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. SCAQMD has received a Popular Award for the fiscal year ended June 30, 2007. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

Further, SCAQMD’s Comprehensive Annual Financial Report for the year ended June 30, 2007, from which the information on pages 7 through 9 have been drawn, was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.
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.”

GOALS

I. Ensure expeditious progress toward meeting clean air standards and protecting public health.

II. Ensure equitable treatment for all communities.

III. Operate efficiently and in a manner sensitive to businesses