

San Joaquin Valley

AIR POLLUTION CONTROL DISTRICT

Comprehensive Annual Financial Report Year ended June 30, 2006

LEADING THE WAY TO A CLEARER FUTURE

Prepared by
Finance Department
Fred O. Bates Jr., District Controller
Roger W. McCoy, Director of Administrative Services

San Joaquin Valley Unified Air Pollution Control District

Comprehensive Annual Financial Report
Year Ended June 30, 2006

Table of Contents

	Page
<u>INTRODUCTORY SECTION</u>	
Governing Board	i
Letter of Transmittal	ii - viii
Organization Chart	ix
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 16
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	19
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balances	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities	22
Notes to Basic Financial Statements	23 - 34
Required Supplementary Information:	
General Fund – Budgetary Comparison Schedule	35
Notes to Schedule of General Fund Budgeted and Actual Expenditures – Budgetary Basis	36

Table of Contents

Page

STATISTICAL SECTION

Net Assets	
Statement of Net Assets – Last Four Fiscal Years	37
Changes in Net Assets – Last Four Fiscal Years	38
Fund Balances	
Fund Balances, General Fund – Last Four Fiscal Years	39
Changes in Fund Balance, General Fund – Last Four Fiscal Years	40
District Revenues	
Operating Revenues by Program Activity – Last Four Fiscal Years	41
DMV Surcharge Fees – Eight County Area – Last Ten Fiscal Years	42
District Expenditures	
Operating Expenditures by Program Activity (Accrual Basis) – Last Three Fiscal Years	43
Operating Expenditures by Budget Object Level - Last Ten Fiscal Years	44
Salary and Benefit Expenditures – Last Ten Fiscal Years	45
District Employees	
District Employees by Program – Last Ten Fiscal Years	46
Population	
Eight County Population – Last Ten Calendar Years	47
Other	
Demographic and Miscellaneous Statistics	48

Introductory Section

San Joaquin Valley Unified Air Pollution Control District

Governing Board

Mike Maggard, Chair

Councilmember, City of Bakersfield

J. Steven Worthley, Vice Chair

Supervisor, Tulare County

Sam Armentrout

Councilmember, City Of Madera

Judith G. Case

Supervisor, Fresno County

Michael G. Nelson

Supervisor, Merced County

Barbara Patrick

Supervisor, Kern County

Dan Prince

Councilmember, City Of Ripon

Tony Barba

Supervisor, Kings County

Thomas W. Mayfield

Supervisor, Stanislaus County

Ronn Dominici

Supervisor, Madera County

Jack A. Sieglock

Supervisor, San Joaquin County

Seyed Sadredin

Executive Director - Air Pollution Control Officer



San Joaquin Valley Unified Air Pollution Control District

January 18, 2007

Governing Board
San Joaquin Valley Unified Air Pollution Control District

This Comprehensive Annual Financial Report (CAFR) of the San Joaquin Valley Unified Air Pollution Control District (District) is for the fiscal year ended June 30, 2006 and was prepared by the District's Finance Office. Responsibility for the accuracy of the data, the completeness and fairness of the presentation, including all disclosures, rests with the District. 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 changes in financial position and all disclosures necessary to enable the reader to gain an understanding of the District's financial activities.

This report is divided into three major sections: the Introductory Section, Financial Section and Statistical Section. The Introductory Section includes the District's organizational structure and a 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 Independent Auditor's Report, Management's Discussion and Analysis, the Basic Financial Statements, which include the Notes to the Basic Financial Statements, and the Budgetary Comparison Schedule for the General Fund. The Statistical Section provides important historical and trend information about the District.

ABOUT THE SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

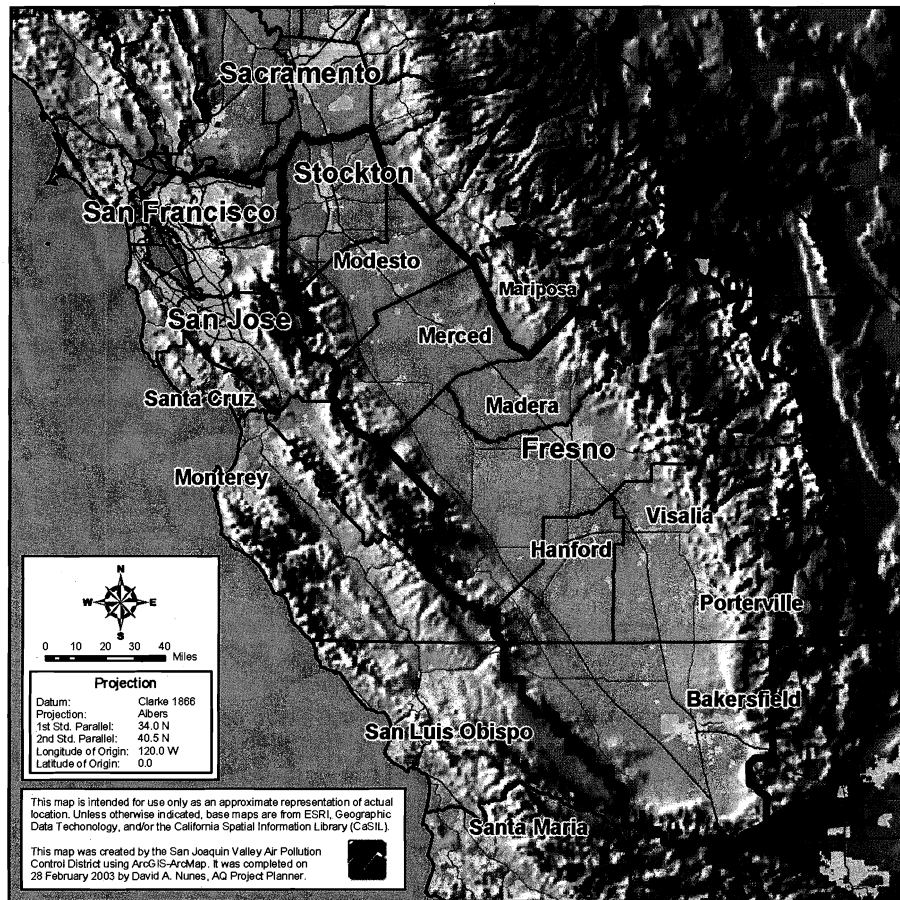
Background

The San Joaquin Valley Unified Air Pollution Control District (District) began operation on March 20, 1991 as a unified air pollution control district operating under the provisions of Sections 40150 through 40162 of the California Health and Safety Code. The District exists to develop and implement local programs that meet the requirements of state and federal air pollution control laws.

The District is responsible for the largest air basin in California. The San Joaquin Valley Air Basin (SJVAB) comprises eight counties (San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings, Tulare, and the Valley portion of Kern), and covers about 25,000 square miles (see map next page). The San Joaquin Valley

is one of California's fastest growing population areas, with a total population of about 3.7 million residents in the year 2005. Major urban centers exist in Stockton, Modesto, Fresno and Bakersfield.

San Joaquin Valley Unified Air Pollution Control District Jurisdictional Boundaries



The District's Governing Board consists of eleven members; eight are Supervisors appointed by the Board of Supervisors of each member county, and three are city Council members selected from Valley cities by the League of California Cities. These locally elected officials, acting as policy makers, ensure that the implementation of state and federal air pollution mandates in the Valley are tailored to local conditions and responsive to local needs.

The Environmental Protection Agency (EPA) requires that the state and the District measure the ambient levels of air pollution to determine compliance with the National Ambient Air Quality Standards (NAAQS). The District and the state comply with this mandate by operating an ambient monitoring network of 28 sites

located throughout the SJVAB and measure a variety of air pollutants and meteorological parameters. This network includes numerous co-located monitors to measure the precision and accuracy of data collected from the monitoring sites.

Federal and state laws require emission control measures in areas where measured air pollution levels exceed standards. The SJVAB is one of these areas. A variety of state, federal and local agencies implement air pollution reduction programs. The federal government, primarily through the Environmental Protection Agency (EPA), sets standards for ambient air pollutant levels as well as pollutant emission rates from specific source categories, oversees state and local actions, implements programs for reducing public exposure to toxic air pollutants, and implements programs for reducing pollutant emissions from heavy-duty trucks, locomotives, ships, aircraft, off-road diesel equipment, and some types of industrial equipment. State government, through the Air Resources Board (ARB) and Bureau of Automotive Repair, sets more stringent state standards, oversees local actions, conducts air monitoring, and implements programs for motor vehicle emissions, fuels, and smog checks. Local air pollution control districts, such as the District, monitor pollution levels, develop plans, implement control measures in their areas (primarily affecting stationary sources such as factories), and conduct public education and outreach efforts. Lastly, local cities and counties are responsible for implementing air-friendly community planning that promotes pedestrian traffic, commute alternatives, and cleaner transit fleets.

Due to its unique topography and meteorology, the SJVAB is especially susceptible to air pollution. The SJVAB is approximately 250 miles long, bordered on three sides by mountain ranges, and shaped like a narrow bowl. The SJVAB's conditions include frequent temperature inversions, long hot summers, and stagnant foggy winters, all of which are conducive to the formation of, and retention of, air pollutants on almost a year-round basis. Pollutants from a variety of sources including factories, refineries, farms and consumer products, as well as the approximately 94 million vehicle miles traveled daily in the SJVAB, combine with pollution transported into the SJVAB from other areas to create unique air quality challenges for its residents.

OUTLOOK FOR THE FUTURE

The San Joaquin Valley Air District is a public health agency whose mission is to improve the health and quality of life for all valley residents through efficient, effective, and entrepreneurial air quality management strategies. This mission is implemented by developing air quality plans, rules, regulations, incentive programs and public education programs designed to reduce emissions of regulated air pollutants and their precursors.

The District has been preparing a major plan or plan revision every calendar year since 2002, and is scheduled to continue this practice through 2008. The *8-hr Ozone Attainment Demonstration Plan* is due to EPA by June 15, 2007, and the *PM2.5 Attainment Demonstration Plan* is due to EPA by April 5, 2008. Supplementing these federal deliverables are requirements for triennial updates to the District's Air Quality Attainment Plan that is directed towards attainment of the California ambient air quality standards.

Implementation of the control strategies in the District's air quality plans involves activities by the District, ARB, EPA, and local government agencies. These activities include adoption and enforcement of new rules reducing emissions from stationary sources, heavy-duty vehicle fleets, and indirect sources; implementation of rules reducing vehicle emissions through tailpipe controls and clean fuels; implementation of incentive programs to reduce emissions from a variety of source categories; adoption of local measures to reduce emissions from transportation activities in cities and counties; and implementation of public education programs. The District and ARB will continue to work together to oversee research aimed at improving the scientific basis for many of the above activities through better understanding of emissions and of the transport and fate of those emissions in the San Joaquin Valley atmosphere.

FINANCIAL CONTROLS

Annual and Independent Audit

It is the policy of the District to have an annual audit performed by an independent certified public accounting firm appointed by the District's Governing Board. Brown Armstrong, Certified Public Accountants, conducted the independent audit of the District's financial statements for fiscal year ended June 30, 2006. The auditor's unqualified opinion on the basic financial statements is included in the Financial Section of this report.

As part of the District's annual audit engagement, the auditors review the District's internal control structure, as well as compliance with applicable laws and regulations. The results of the District's annual audit for fiscal year ended June 30, 2006, provided no instances of material weaknesses in connection with the internal control structure or violations of applicable laws and regulations.

As recipients of federal and state financial resources, the District is required to undergo an annual single audit. The information related to this single audit, including the Schedule of Expenditures of Federal Awards, 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 District is responsible for establishing, maintaining and evaluating the District'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, assurances 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 District's internal control evaluations occur within the above framework, which ensures adequate safeguard of the District's assets and reasonable assurance of proper recording of financial transactions.

Budgetary Control

In accordance with the provisions of the State Health and Safety Code Section 40131, the District's Formation Agreement, and the District's Administrative Code, the District prepares and legally adopts a final balanced budget on or before June 30 of each fiscal year. The final adopted budget is available for review in the District's Finance Office.

Budgetary control is exercised at the object level. All amendments or transfers of appropriations between these levels are authorized by the Executive Director/APCO and must be approved by the District Governing Board. Supplemental appropriations financed by unanticipated revenues also must be approved by the Board.

Expenditures, except for fixed assets, are controlled at the object level for all program budgets within the District. Fixed assets are controlled at the sub-object level. There are no significant excess expenditures over the related appropriations in any object. Budgeted amounts are reported as amended

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes. Encumbrance accounting is utilized for budgetary control and accountability and to facilitate effective cash planning and control.

Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balance for subsequent year expenditures.

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.

OTHER INFORMATION

Cash Management

The County of Fresno provides treasury management services to the District. Cash resources of District funds are invested as part of Fresno County's common investment pool. California Statutes and the County's Investment Policy authorize investments in obligations of the U.S. Treasury, agencies and instrumentalities, medium term notes, commercial paper, bankers' acceptances, repurchase agreements and the State Treasurer's Investment Pool. The District's portfolio at June 30, 2006 is \$42,229,327.

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

Risk Management

The District participates in a joint powers authority, the Special District Risk Management Authority, (SDRMA) whose purpose is to develop and fund programs of excess insurance for comprehensive liability, property and employee blanket bonds for its member districts.

The District has coverage against claims up to a limit of \$10,000,000 for comprehensive general and auto liability and public officials liability, and up to \$400,000 for public employees blanket bond and for the replacement cost of property.

Acknowledgments

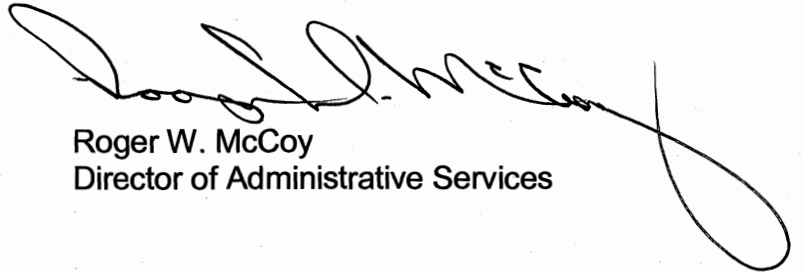
The dedicated services of the accountants and staff of the Finance Department made the preparation of our comprehensive annual financial report possible.

Recognition is also given to the Governing Board for their leadership and support and to all employees of the District who continue to push technology and improve operations to accomplish the District's mission of protecting public health from air pollution in an efficient and cost effective manner.

Respectively submitted,



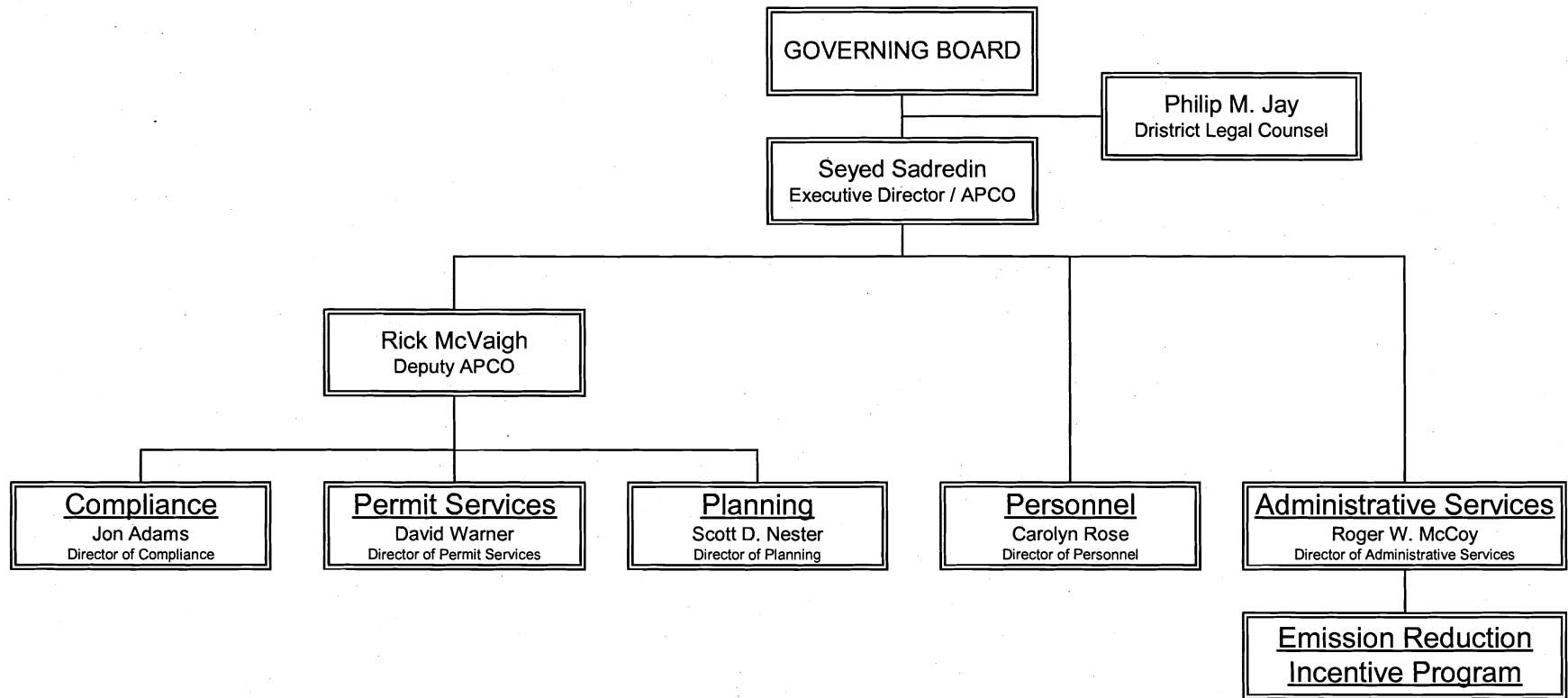
Seyed Sadredin
Executive Director / APCO



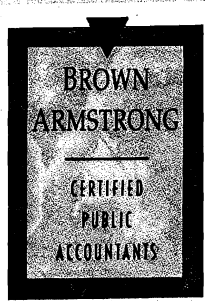
Roger W. McCoy
Director of Administrative Services

San Joaquin Valley Unified Air Pollution Control District

June 30, 2006



Financial Section



BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
Certified Public Accountants

Main Office
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: bainfo@bacpas.com

Shafter Office
560 Central Avenue
Shafter, California 93263
Tel 661.746.2145 Fax 661.746.1218

Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Harvey J. McCown, CPA
Steven R. Starbuck, CPA
Aileen K. Keeter, CPA
Chris M. Thornburgh, CPA
Eric H. Xin, CPA, MBA

INDEPENDENT AUDITOR'S REPORT

Lynn R. Krausse, CPA, MST
Rosalba Flores, CPA
Connie M. Perez, CPA
Sharon Jones, CPA, MST
Diana H. Branthoover, CPA
Thomas M. Young, CPA
Alicia Montgomery, CPA, MBA
Matthew Gilligan, CPA
Ryan S. Johnson, CPA
Hanna J. Sheppard, CPA
Michael C. Olivares, CPA
Natalie M. Arduain, CPA
Ryan J. Nielsen, CPA
Amanda Fedewa, CPA
Jian Ou-Yang, CPA

The Governing Board
San Joaquin Valley Unified Air Pollution Control District
Fresno, California

We have audited the accompanying financial statements of the government activities and the major fund/general fund of San Joaquin Valley Unified Air Pollution Control District (the "District"), as of June 30, 2006, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

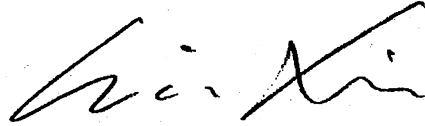
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 government activities and the major fund/general fund of the District, as of June 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as listed in the accompany table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board. We have applied certain limited procedures, which principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "B. A. Paulden", is written over the printed name of the firm.

Bakersfield, California
September 13, 2006

San Joaquin Valley Unified Air Pollution Control District

Management's Discussion and Analysis June 30, 2006

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter and the basic financial statements.

A. Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$86,757,224 (*net assets*). Of this amount \$14,156,732 (*unrestricted net assets*) may be used to finance the District's day-to-day operations without constraints established by legal requirements.
- The District's total net assets increased \$36,291,483 as compared to the prior fiscal year. Advance funding on District Non-Operating Incentive Programs is the major reason for the large increase to total net assets. The cash account increased \$36,847,880, as compared to the prior fiscal years ending balance.
- The District's General Fund reported total fund balances of \$81,975,532 at year-end; \$9,906,380 represents the unreserved fund balance.

B. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District'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 District's report also includes required supplementary information to the Basic Financial Statements.

In general, the purpose of financial reporting is to provide the external parties that read the 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 District, 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 District. The government-wide financial statements are designed to provide readers with a broad overview of the District'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 District 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 District is improving or deteriorating.

The Statement of Activities reports the net cost of the District's activities by program 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 program activities performed by the District. The Statement begins with a column that identifies the cost of each of the District's major programs. 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 program activities represents the net cost or revenue of the program activities. This determines the amount, if any, drawn from general revenues by each program activity.

The District's government-wide financial statements are presented on pages 17 to 18 of this report.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole.

Governmental Fund

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 financial statements are prepared on the full accrual basis.

In general, these fund 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 as 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 unreserved portion of the fund balance indicates the amount available to finance future activities.

The operating statement for the General Fund reports 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 District's Balance Sheet is presented on page 19 and Statement of Revenues, Expenditures, and Changes in Fund Balance is presented on page 21 of this report.

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 20 of this report.

The reconciliation of the total changes in fund balances for all governmental funds to the change in net assets can be found on page 22 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Basic Financial Statements can be found on pages 23 to 34 of this report.

Required Supplementary Information

In addition to the Basic Financial Statements and accompanying notes, this report also presents required supplementary information concerning the budgetary comparison schedule and budgetary reconciliation. The Notes to Schedule of General Fund Budget and Actual Expenditures can be found on page 36 of this report

C. Government-wide Financial Analysis

Our analysis focuses on the net assets and the changes in net assets of the District's governmental activities.

The following schedule is a condensed Statement of Net Assets as of the year ended June 30, 2006, as compared to the prior fiscal year.

Statement of Net Assets (In Thousands)

	FY <u>2005-06</u>	FY <u>2004-05</u>	Increase (Decrease)	Percent Change
Current and Other Assets	\$83,825	\$46,872	\$36,953	78.8%
Capital Assets	6,504	6,605	(101)	-1.5%
Total Assets	<u>\$90,329</u>	<u>\$53,477</u>	<u>\$36,852</u>	<u>68.9%</u>
Current Liabilities	\$1,849	\$1,430	\$419	29.3%
Noncurrent Liabilities	1,723	1,581	142	9.0%
Total Liabilities	<u>\$3,572</u>	<u>\$3,011</u>	<u>\$561</u>	<u>18.6%</u>
Net Assets:				
Invested in Capital Assets, net of related debt	\$6,504	\$6,605	(\$101)	-1.5%
Restricted for Special Projects/Programs	66,096	27,454	38,642	140.8%
Unrestricted	14,157	16,407	(2,250)	-13.7%
Total Net Assets	<u><u>\$86,757</u></u>	<u><u>\$50,466</u></u>	<u><u>\$36,291</u></u>	<u><u>71.9%</u></u>

The District's net assets increased \$36,291,483 as compared to the prior fiscal year.

The District's total assets increased approximately \$36,852,000 as compared to the prior fiscal year. Advance funding on District Non-Operating Incentive Programs is the major reason for the large increase to total net assets. The cash account increased \$36,847,880, as compared to the prior fiscal years ending balance.

The District's total liabilities increased approximately \$561,000 as compared to the prior fiscal year. The combination of an increase in Accounts Payable of \$148,697, an increase in Accrued Wages Payable of \$206,172 at year-end, and an increase of \$141,739 in Compensated Absences due in more than one year make-up the majority of the total increase to the District's liabilities.

The largest portion of the District's net assets 76.2% is restricted. These funds are restricted to expenditures for specific purposes. Unrestricted net assets account for 16.3% of the District's net assets. These funds may be used to meet the District's ongoing obligations in carrying out day-to-day operations without constraints established by legal requirements. Capital assets at 7.5% of the District's net assets reflect the District's investment in capital assets used by the District (e.g. land, buildings, equipment, and vehicles). The District 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.

The following is a condensed schedule of Changes in Net Assets for the fiscal year ended June 30, 2006, as compared to the prior year.

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

	Fiscal Year <u>2005-06</u>	Fiscal Year <u>2004-05</u>	<u>Difference</u>	<u>Percent Change</u>
Revenues:				
Program Revenues:				
Fees and Charges - Stationary Sources	\$10,413	\$9,312	\$1,101	11.8%
Fees and Charges - Mobile Sources	11,329	11,013	316	2.9%
Operating Grants	2,135	1,997	138	6.9%
Restricted Special Revenue Sources	44,101	9,135	34,966	382.8%
General Revenues:				
State Subvention - Not Restricted	884	876	8	0.9%
Interest - Not Restricted	424	354	70	19.8%
Penalties/Settlements	5,393	3,239	2,154	66.5%
Miscellaneous Revenue	46	243	(197)	-81.1%
	<u>\$74,725</u>	<u>\$36,169</u>	<u>\$38,556</u>	<u>106.6%</u>
Current Expenses:				
Permitting	\$9,614	\$9,005	\$609	6.8%
Enforcement	8,182	7,376	806	10.9%
Agricultural Burning	1,053	1,286	(233)	-18.1%
Plan & Rule Development	2,894	2,472	422	17.1%
Mobile Sources	1,182	1,052	130	12.4%
Public Education	1,806	1,552	254	16.4%
Air Quality Analysis	1,421	996	425	42.7%
Air Monitoring	1,520	1,126	394	35.0%
Non-Operating Incentive Programs	10,762	14,075	(3,313)	-23.5%
Total Expenses	<u>\$38,434</u>	<u>\$38,940</u>	<u>(\$506)</u>	<u>-1.3%</u>
Increase/(Decrease) - Changes in Net Assets	<u>\$36,291</u>	<u>(\$2,771)</u>	<u>\$39,062</u>	<u>-1409.7%</u>

The major factor in the approximate \$36.3 million increase to Net Assets for the fiscal year ended June 30, 2006 is the advanced funding received on District Non-Operating Incentive Programs. These funds will be held in the restricted net asset account until expenditures are made in future fiscal years.

Governmental Activities

The objective of the Statement of Activities is to report the full cost of providing government services for the year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws from the general revenues of the District.

The Statement of Activities presents information showing how the District's net assets changed during the year. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

Fees, grants, state subvention, penalties, and settlements predominantly support governmental functions of the District. The primary governmental activities of the District include the following: Permit Services and Enforcement, Agricultural Burning, Plan and Rule Development, Mobile Source, Public Education, Air Quality Analysis, Air Monitoring, and Non-Operating Incentive Programs.

The following is a schedule of Revenues by Major Source for the fiscal year ended June 30, 2006, as compared to the prior year.

Revenues by Major Source Governmental Activities (In Thousands)

	Fiscal Year 2005-06	Fiscal Year 2004-05	Increase (Decrease)
Stationary Sources	\$10,413	\$9,312	\$1,101
Mobile Sources	11,329	11,013	316
Operating Grants	2,135	1,997	138
General Revenues *	6,747	4,712	2,035
Restricted Special Revenue Sources	44,101	9,135	34,966
	<u>\$74,725</u>	<u>\$36,169</u>	<u>\$38,556</u>

* Includes State Subvention, Interest, Penalties and Settlements, and other Miscellaneous Revenues that are not restricted to specific programs

Following are explanations of the significant revenue variances as compared to the prior fiscal year:

Stationary Source Revenue

- Stationary Source Revenue increased approximately \$1,101,000 as compared to the prior fiscal year. Increases to Non-Title V Renewal Fees of \$796,571 and Conservation Management Practice Plan Filing and Renewal Fees of \$278,972 account for the majority of this increase.

Mobile Source Revenue

- Mobile Source Revenue increased approximately \$316,000 as compared to the prior fiscal year. Three items make up the majority of this increase: 1) Administrative Fee Revenue from the Carl Moyer Program increased \$338,169. 2) Administrative Fee Revenue for the SB709 and AB923 DMV Surcharge Fee Programs increased \$232,941. 3) AB2766 DMV Surcharge Fee Revenue decreased \$255,433.

Restricted Special Revenue Sources

- Restricted Special Source Revenue increased approximately \$34,966,000 as compared to the prior fiscal year. Five items make up the majority of the increase to Restricted Special Revenue. 1) DMV Surcharge Fee Revenue for SB709 and AB923 is for a full year as compared to just a couple of months in the prior fiscal year. An increase of \$5,047,720 is the result of this situation. 2) The passage of SB1107 by the State of California has greatly increased the amount of Carl Moyer funds granted to the Air Districts. This first year of the expanded program shows an increase to Carl Moyer Funds of \$11,862,150 as compared to the prior fiscal year. 3) Traffic Congestion Relief Program Funds (TCRP) increased \$6,577,020 as compared to the prior fiscal year. The \$9,538,510 received this fiscal year is the final distribution to the District on this \$25 million grant that began in Fiscal Year 2000-01 4) Funds from ARB for the School Bus Retrofit/Replacement Program were \$5,346,000 as compared to zero funds received in the prior fiscal year. 5) Voluntary Development Mitigation Contract revenue increased \$5,628,618 as compared to prior fiscal year.

The following is a schedule of District Expenses by Activity for the fiscal year ending June 30, 2006, as compared to the prior year.

Expenses by Activities Governmental Activities (In Thousands)

	Fiscal Year 2005-06	Fiscal Year 2004-05	Increase (Decrease)
Permitting	\$9,614	\$9,005	\$609
Enforcement	8,182	7,376	806
Agricultural Burning	1,053	1,286	(233)
Plan and Rule Development	2,894	2,472	422
Mobile Sorce	1,182	1,052	130
Public Education	1,806	1,552	254
Air Quality Analysis	1,421	996	425
Air Monitoring	1,520	1,126	394
Total Operating Expenses	<u>27,672</u>	<u>24,865</u>	<u>2,807</u>
Non-Operating Incentive Programs	<u>10,762</u>	<u>14,075</u>	<u>(3,313)</u>
Total District Expenses	<u><u>\$38,434</u></u>	<u><u>\$38,940</u></u>	<u><u>(\$506)</u></u>

District Operating Expenses

- The District's operating expenses increased approximately \$1,950,000 as compared to the prior fiscal year. Increases of \$1,868,739 to District Salaries and Benefits account for more than 96% of this total. The expense for District Retirement increased \$1,338,691 or 72% of the total increase to Salaries and Benefits. Employer retirement rates with the Kern County Employees' Retirement Association increased from 17.77% in FY 04/05 to 25.04% in FY 05/06.

Non-Operating Incentive Program Expenses

Non-Operating Incentive Program expenses decreased approximately \$3,313,000 as compared to the prior fiscal year. The chart below details the major changes to the various Incentive Programs that make up this decrease.

Incentive Program Name	Fiscal Year 2005-06	Fiscal Year 2004-05	Increase (Decrease)
DMV REMOVE Program	\$ -	\$ 834,097	\$ (834,097)
DMV Heavy-Duty Program	2,643,239	4,452,414	(1,809,175)
Carl Moyer Program	4,249,556	2,561,275	1,688,281
CEC Heavy-Duty Program	-	300,000	(300,000)
State ERC Program	317,575	2,166,192	(1,848,617)
Peaker Plant Program	15,000	213,389	(198,389)
Total	\$ 7,225,370	\$ 10,527,367	\$ (3,301,997)

D. Financial Analysis of the District's General Fund

General Fund

As of the end of the fiscal year, the District's General Fund reported an ending balance of \$81,975,532, an increase of \$36,533,484 in comparison with the prior year. Approximately 88% of this fund balance, \$72,069,152 is reserved and restricted for specific purposes. The long-term contractual commitments related to these restricted programs involve multiple-year spending.

At the end of the fiscal year, the District's unreserved fund balance was \$9,906,380, a decrease of \$2,004,681 in comparison with the prior year.

E. Capital Assets

The District's investment in capital assets is for its governmental activities. The book value was \$6,504,440 (net of accumulated depreciation of \$6,295,630) as of June 30, 2006. This investment in capital assets includes land, buildings and improvements, equipment for air monitoring stations, computer and office equipment, video conferencing equipment, and District vehicles.

Additional information on the capital assets can be found in the "Notes to Financial Statements" on page 31 of this report.

F. Current Year's Budget

The Adjusted Budget for the District for the fiscal year ended June 30, 2006 was \$79,075,351, an increase of \$25,556,151 as compared to the Adopted Budget.

The District Budget is divided into two sections. The Operating Budget represents those expenditures that directly support the everyday operations of the District. The Non-Operating Budget represents those expenditures for the incentive programs administered by the District. Various federal and state agencies provide funding for these programs in the form of grants or agreements. Listed below are the major factors that explain the change from the Adopted Budget to the final Adjusted Budget at year-end.

Operating Budget

The Adjusted Operating Budget at June 30, 2006 was \$32,169,446, an increase of \$4,910,546 as compared to the Adopted Operating Budget. Two major changes make up the majority of the increase to the Adjusted Operating Budget. 1) The District's Retirement Account was increased \$1,288,600 to accommodate a 7.87% increase to the employer retirement rate for fiscal year 2005/06 from the Kern County Employees' Retirement Association. 2) The District's Governing Board approved an appropriation to purchase the Northern Region Office Building, a \$3,370,000 increase to the Fixed Assets section of the District Operating Budget.

Non-Operating Budget

The Adjusted Non-Operating Budget at June 30, 2006 was \$46,905,905, an increase of \$20,645,605 as compared to the Adopted Non-Operating Budget. The receipt of unanticipated revenue during the year for Incentive Programs, as detailed below, accounts for this increase.

Traffic Congestion Relief Program	\$6,538,510
Dairy CEQA Program	450,000
School Bus Retrofit Program	1,223,000
School Bus Replacement Program	4,340,000
Development Mitigation Contracts	5,887,195
ISR Rule Mitigation	1,706,900
San Joaquin Valley Blueprint Project	<u>500,000</u>
	\$20,645,605

Actual expenditures as compared to the Adjusted Budget at June 30, 2006:

Operating Budget

Revenues

Actual Operating Revenues at June 30, 2006 were \$28,649,086 as compared to the final Adjusted Budget of \$24,833,546, a positive variance of \$3,815,540.

Annual Penalty and Settlement Revenue was budgeted at \$1,660,900. Actual revenue for Penalties and Settlements was \$5,302,723, a positive variance of \$3,641,823. A combination of two factors explains this variance; 1) In the budget process the District uses a conservative approach in budgeting for penalties and settlements due to the unpredictable nature of this revenue, and 2) the District received several large unanticipated settlements in the amount of \$1,515,800 that was not included in the Adjusted Budget.

Expenditures

Actual Operating Expenditures at June 30, 2006 were \$26,355,988 as compared to the final Adjusted Budget of \$32,169,446, a positive variance of \$5,813,458.

Salaries and Benefits

Actual Salary and Benefit expenditures at year-end were \$21,693,531 as compared to the final Adjusted Budget of \$22,642,000, a positive variance of \$948,469. Salary and benefit savings on vacant positions during the year were the major factor contributing to the positive variance.

Services and Supplies

Actual Service and Supplies expenditures at year-end were \$3,945,522 as compared to the final Adjusted Budget of \$4,630,146, a positive variance of \$684,624. Listed in the table below are the accounts that make up the majority of the positive variance in the Services and Supplies category.

	<u>Final Adusted Budget</u>	<u>Actual Expenditures @ 6/30/06</u>	<u>Variance Positive (Negative)</u>	<u>Amount Encumbered</u>
Printing	\$ 172,200	\$ 102,453	\$ 69,747	\$ 25,417
Professional & Specialized Services	1,619,731	1,232,855	386,876	128,552
Special District Expense	296,800	201,272	95,528	41,705
Total	<u>\$ 2,088,731</u>	<u>\$ 1,536,580</u>	<u>\$ 552,151</u>	<u>\$ 195,674</u>

The large variance in the Professional & Specialized Services account is explained by two major factors: 1) The budget contained contracts that the District chose not to proceed on during the fiscal year. 2) The budget contained contracts that were not started during the year due to time constraints. These contracts were re-budgeted for completion in the FY 2006-07 Recommended Budget.

The encumbered amount was for binding budgetary commitments entered into before the year-end, which will not be expended until after year-end.

Fixed Assets

Actual Fixed Assets expenditures at year-end were 716,935 as compared to the final Adjusted Budget of \$4,897,300, a positive variance of \$4,180,365. Listed in the table below are the accounts that make up the majority of the positive variance in the Fixed Asset category.

	<u>Final Adusted Budget</u>	<u>Actual Expenditures @ 6/30/06</u>	<u>Variance Positive (Negative)</u>	<u>Amount Encumbered</u>
Computer Equipment	\$ 402,500	\$ 196,160	\$ 206,340	\$ 143,725
Automobiles	386,500	247,304	139,196	-
Air Monitoring Station Equipment	94,000	26,794	67,206	52,414
Electronic Document Management	200,000	1,255	198,745	198,745
Video Conferencing System	156,100	17,609	138,491	137,908
Northern Region Office Building	3,370,000	25,000	3,345,000	3,345,000
Total	<u>\$ 4,609,100</u>	<u>\$ 514,122</u>	<u>\$ 4,094,978</u>	<u>\$ 3,877,792</u>

The encumbered amount was for binding budgetary commitments entered into before the year-end, which will not be expended until after year-end.

Non-Operating Budget

Revenues

Actual Non-Operating Revenues at June 30, 2006 were \$46,076,378 as compared to the final Adjusted Budget of \$43,489,705, a positive variance of \$2,586,673. Listed in the table below are the revenues that make up the majority of positive variance in Non-Operating Revenues.

	<u>Final Adusted Budget</u>	<u>Actual Revnues @ 6/30/06</u>	<u>Variance Positive (Negative)</u>
Heavy Duty Engine Program Funds	\$ 26,438,610	\$ 31,403,562	\$ 4,964,952
DMV Surcharge Fees	8,974,000	8,690,623	(283,377)
Dairy CEQA Program Funds	450,000	50,000	(400,000)
ISR Rule Mitigation Funds	1,706,900	-	(1,706,900)
Total	<u>\$ 37,569,510</u>	<u>\$ 40,144,185</u>	<u>\$ 2,574,675</u>

Expenditures

Actual Non-Operating Expenditures at June 30, 2006 were \$3,904,184 as compared to the final Adjusted Budget of \$46,905,905, a positive variance of \$43,001,721. Listed in the table on the next page are the expenditures that make up the majority of positive variances in Non-Operating Expenditures.

	<u>Final Adusted Budget</u>	<u>Actual Expenditures @ 6/30/06</u>	<u>Variance Positive (Negative)</u>	<u>Amount Reserved</u>
Heavy Duty Emission Program	\$ 37,328,810	\$ 3,526,149	\$ 33,802,661	\$ 33,802,661
Deveopment Mitigation Contracts	5,887,195	97,182	5,790,013	5,790,013
ISR Rule Mitigation Program	1,706,900	-	1,706,900	-
San Joaquin Valley Blueprint Project	500,000	-	500,000	500,000
Total	<u>\$ 45,422,905</u>	<u>\$ 3,623,331</u>	<u>\$ 41,799,574</u>	<u>\$ 40,092,674</u>

The District has a policy of not entering into incentive grant contracts until grant funds are received by the District. As detailed above, a significant amount of grant funds were received in 2005-06 that will not be dispersed to grantees until 2006-07.

G. Next Year's Budget

The fiscal year 2006-07 Adopted Budget shows a 13.5% increase as compared to the FY 2005-06 Adjusted Budget. Operating appropriations decreased 5.1%, while Non-Operating appropriations increased 26.5%.

The FY 2006-07 Budget does not include a recommendation for a fee increase for any fee collected by the District. Since the District unified in 1991-92, the Governing Board has approved only one across-the-board increase to the stationary source fee schedules, a 5% increase as a part of the 1997-98 Adopted Budget.

Operating Budget: The Operating Budget shows a decrease of \$1,636,946, or -5.1% as compared to the prior year adjusted budget.

Salaries and Benefits

Total Salaries and Benefits for the FY 2006-07 Adopted Budget is \$24,420,700 as compared to FY 2005-06 Adjusted Budget of \$22,642,000, an increase of \$1,778,700. Listed in the table below are the accounts that make up the majority of the increase to Salaries and Benefits.

	<u>FY05-06 Final Adusted Budget</u>	<u>FY06-07 Adopted Budget</u>	<u>Increase (Decrease)</u>
Regular Salaries	\$ 14,778,800	\$ 15,430,000	\$ 651,200
Retirement	4,158,700	5,344,600	1,185,900
Total	<u>\$ 18,937,500</u>	<u>\$ 20,774,600</u>	<u>\$ 1,837,100</u>

Merit and Flex increases of \$204,900, the addition of two new positions and 4 position reclassifications with a cost of \$69,400, and the effect of FY 2005-06 mid-year additions with a cost of \$351,900, make up the majority of the increase to Salaries and Benefits.

Services and Supplies

Total Services and Supplies for the FY 2006-07 Adopted Budget is \$4,676,600 as compared to FY 2005-06 Adjusted Budget of \$4,630,146, an increase of \$46,454.

Fixed Assets

Total Fixed Assets for the FY 2006-07 Adopted Budget is \$1,435,200 as compared to FY 2005-06 Adjusted Budget of \$4,897,300, a decrease of \$3,462,100. Listed in the table below are the accounts that make up the majority of the decrease to Fixed Assets.

	FY05-06 Final Adjusted Budget	FY06-07 Adopted Budget	Increase (Decrease)
Automobiles	\$ 386,500	\$ 288,500	\$ (98,000)
Air Monitoring station Equipment	94,000	396,500	302,500
Electronic Document Management System	200,000	-	(200,000)
Northern Region Office Building	3,370,000	-	(3,370,000)
Total	\$ 4,050,500	\$ 685,000	\$ (3,365,500)

Non-Operating Budget: The Non-Operating Budget shows an increase of \$12,225,295, or 26.5% as compared to the prior year adjusted budget. Listed in the table below are the accounts that make up the majority of the increase to the Non-Operating Budget.

	FY05-06 Final Adjusted Budget	FY06-07 Adopted Budget	Increase (Decrease)
EPA 103 Grant	\$ -	\$ 198,400	\$ 198,400
\$4 DMV Incentive Program	3,710,300	2,739,400	(970,900)
\$1 DMV Incentive Program	2,474,300	3,056,800	582,500
\$2 DMV Incentive Program	4,781,700	5,806,100	1,024,400
Carl Moyer Program	11,261,000	11,544,900	283,900
Non-Operating Interest	-	714,300	714,300
TCRP Heavy Duty Program	9,538,510	-	(9,538,510)
School Bus Retrofit/Replacement Program	5,563,000	-	(5,563,000)
Development Mitigation Contracts	5,887,195	1,001,300	(4,885,895)
ISR Rule Mitigation Program	1,706,900	23,934,000	22,227,100
Winery Rule Program	-	8,650,000	8,650,000
San Joaquin Valley Blueprint Project	500,000	-	(500,000)
Total	\$ 45,422,905	\$ 57,645,200	\$ 12,222,295

H. Economic Factors

It is important to note that the District is relatively self-sufficient with no significant dependence on the state. In addition, ongoing, long-term forecasts project good fiscal health for the District. So while the District does face a full agenda of challenges, the Governing Board has sufficient resources available to meet those challenges.

I. Requests for Information

This financial report is designed to provide a general overview of the District'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 Director of Administrative Services, 1990 East Gettysburg Avenue, Fresno, California 93726-0244.

Basic Financial Statements

Government-wide Financial Statements

San Joaquin Valley Unified Air Pollution Control District
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets:	
Cash and Cash Equivalents	\$80,201,439
Accrued Revenues	3,622,459
Prepaid Expenses	727
Total Current Assets	83,824,625
Noncurrent Assets:	
Land	580,000
Capital Assets, Net of Accumulated Depreciation	5,924,440
Total Noncurrent Assets	6,504,440
Total Assets	90,329,065
<u>Liabilities</u>	
Current Liabilities:	
Accounts Payable	529,524
Accrued Wages Payable	1,222,709
Compensated Absences Payable	96,860
Total Current Liabilities	1,849,093
Noncurrent Liabilities:	
Compensated Absences Payable Due In More Than One Year	1,722,748
Total Liabilities	3,571,841
<u>Net Assets</u>	
Invested in Capital Assets	6,504,440
Restricted for Special Projects/Programs	66,096,052
Unrestricted	14,156,732
Total Net Assets	\$86,757,224

The notes to the financial statements are an integral part of the this statement.

San Joaquin Valley Unified Air Pollution Control District
Statement of Activities
For the Year Ended June 30, 2006

Programs	Expenses	Program Revenues			Restricted Special Revenue Sources	Net (Expense) Revenue and Changes in Net Assets	
		Fees & Charges for Services		Operating Grants			Governmental Activities
		Stationary Sources	Mobile Sources				
Governmental Activities:							
Permitting	\$9,614,325	\$4,856,571	\$0	\$230,392	-	(\$4,527,362)	
Enforcement	8,182,446	5,118,677	1,101,843	152,992	-	(1,808,934)	
Agricultural Burning	1,052,751	421,368	31,306	181	-	(599,896)	
Plan & Rule Development	2,893,886	16,800	2,363,502	573,637	-	60,053	
Mobile Sources	1,181,484	-	1,256,321	170,730	-	245,567	
Public Education	1,805,975	-	2,045,045	301,394	-	540,464	
Air Quality Analysis	1,421,034	-	1,135,272	241,024	-	(44,738)	
Air Monitoring	1,520,391	-	1,419,456	465,049	-	364,114	
Non-Operating	10,761,689	-	1,975,678	-	\$44,100,700	35,314,689	
Total Governmental Activities	\$38,433,981	\$10,413,416	\$11,328,423	\$2,135,399	\$44,100,700	29,543,957	
General Revenues:							
State Subvention - not restricted to specific programs						884,253	
Interest - not restricted to specific programs						424,158	
Penalties/Settlements						5,392,669	
Miscellaneous Revenue						46,446	
Total General Revenues						6,747,526	
Change in Net Assets						36,291,483	
Net Assets - beginning						50,465,741	
Net Assets - ending						\$86,757,224	

The notes to the financial statements are an integral part of this statement.

Fund Financial Statements

San Joaquin Valley Unified Air Pollution Control District
Balance Sheet - General Fund
June 30, 2006

Assets:

Cash and Cash Equivalents	\$ 80,201,439
Accrued Revenues	3,622,459
Travel Advances	<u>727</u>
Total Assets	<u><u>\$ 83,824,625</u></u>

Liabilities:

Accounts Payable	529,524
Accrued Wages Payable	1,222,709
Compensated Absences Payable	<u>96,860</u>
Total Liabilities	<u>1,849,093</u>

Fund Balance:

Reserved Fund Balance	72,069,152
Unreserved Fund Balance	<u>9,906,380</u>
Total Fund Balance	<u>81,975,532</u>

Total Liabilities and Fund Balance	<u><u>\$ 83,824,625</u></u>
------------------------------------	-----------------------------

The notes to the financial statements are an integral part of this statement.

San Joaquin Valley Unified Air Pollution Control District

Reconciliation of the General Fund Balance Sheet to the Government-wide Statement of Net Assets

June 30, 2006

Fund Balance - General Fund	\$81,975,532
-----------------------------	--------------

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

Land and Capital Assets Net of Accumulated Depreciation have not been included as financial resources in the General Fund activity. These capital assets are reported in the Statement of Net Assets as capital assets of the District as a whole.

6,504,440

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.

(1,722,748)

Net Assets of Governmental Activities

\$86,757,224

The notes to the financial statements are an integral part of this statement.

San Joaquin Valley Air Pollution Control District
Statement of Revenue, Expenditures, and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2006

Revenues:	
License and Permit Fees	\$ 27,930,025
Administrative Fees	632,848
Penalties and Settlements	5,302,723
Interest	1,794,043
State Grants	30,917,930
Federal Grants	2,146,733
Mitigation Contracts	5,887,195
Miscellaneous Revenue	113,967
Total Revenue	<u>74,725,464</u>
Expenditures:	
Operating:	
Salaries and Benefits	21,693,531
Services and Supplies	4,463,578
Capital Outlay	1,273,182
Total Operating Expenditures	<u>27,430,291</u>
Non-Operating:	
Pass Through and Non-Operating	10,761,689
Total Expenditures	<u>38,191,980</u>
Deficiency of Revenues under Expenditures	<u>36,533,484</u>
Fund Balance, July 1, 2005	<u>45,442,048</u>
Fund Balance, June 30, 2006	<u><u>\$ 81,975,532</u></u>

The notes to the financial statements are an integral part of this statement.

San Joaquin Valley Unified Air Pollution Control District

Reconciliation of the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Government-wide Statement of Activities

For the Year Ended June 30, 2006

Net Change in Fund Balance - General Fund \$36,533,484

The General Fund reports capital outlays as expenditures. However, in the Government-wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of the capital outlays recorded in the current period.

571,935

Depreciation expense on capital assets is reported in the Government-wide Statement of Activities but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the General Fund.

(672,197)

Decrease in compensated absences due in more than one year

(141,739)

Change in Net Assets of Governmental Activities

\$36,291,483

The notes to the financial statements are an integral part of this statement

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The San Joaquin Valley Unified Air Pollution Control District (the "District") is a special district operating under the provisions of Sections 40150 through 40162 of the California Health and Safety Code. The District exists to develop and implement programs on a local level to meet the requirements of state and federal air pollution control laws in the San Joaquin Valley. The San Joaquin Valley Air Basin (SJVAB) comprises eight counties (San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings, Tulare, and the Valley portion of Kern), and covers about 25,000 square miles. The District Governing Board consists of eleven members, eight are Supervisors appointed by the Board of Supervisors of each member county, and three are city Council Members selected from Valley cities by the league of California Cities. The District 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 District's permit system.

B. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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. The District considers accrued revenue to be available if it is collected within 90 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service

expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. State and Federal Grants, Vehicle Registration Fees, Licenses and Interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when the District receives cash.

Government-wide Financial Statements

The District government-wide financial statements include a Statement of Net Assets and Statement of Activities. These statements present summaries of governmental activities for the District as a whole.

These statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District'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 degree to which the direct expenses of a given functional activity are offset by program revenues directly connected with the functional activity. Direct expenses are those that are clearly identifiable with a specific functional activity.

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

- Permitting
- Enforcement
- Agricultural Burning
- Plan and Rule Development
- Mobile Sources
- Public Education
- Air Quality Analysis
- Air Monitoring

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 that are in support of air pollution program activities, and 3) Restricted Special Revenue Sources. Program revenues are netted with program expenses to present the net cost of each functional activity. Interest income and other miscellaneous revenue that cannot be identified with a program 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.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance.

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 Number 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 Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than recording them as fund assets.

C. Fund Types

General Fund

The primary operating fund of the District is used to record transactions relating to its general business operations.

D. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is employed in the General Fund. Purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are recorded as reservations of fund balance for expenditure in a subsequent year. These outstanding encumbrances do not constitute expenditures or liabilities until performance has occurred on the part of the vendors with whom the District 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 \$2,000 and with an expected useful life greater than one year 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 Statement of Net Assets. Property, plant, and equipment of the District are depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	20-40 Years
Air Monitoring and Detection Equipment	5-10 Years
Office Furniture and Other Misc. Equipment	5-10 Years
Telephone Equipment	10 Years
Computer Equipment	5 Years
Automobiles	5 Years

F. Compensated Absences

Regular full-time employees accumulate annual leave. Certain restrictions apply with respect to the accumulation of annual leave and its payment at termination.

The current and noncurrent portion of compensated absences amounted to \$96,860 and \$1,722,748 respectively, and has been reflected in the Statement of Net Assets.

G. Self Insurance

The District is self-insured on comprehensive/collision coverage on all District automobiles. The Special District Risk Management Authority provides coverage for comprehensive general and auto liability, public officials liability, public employees blanket bond, and the replacement cost of property. (See note 6).

H. Restrictions on Net Assets

Total Restricted Net Assets at year-end were \$66,096,052. Restricted Net Assets are assets that are subject to restrictions beyond the District's control. The programs listed below are subject to restrictions imposed by the grantors of each program. The amounts for each program are as follows:

Heavy-Duty Program - Incentives	\$34,749,973
DMV Surcharge Fees - Incentives	16,526,686
DMV Fees - Rollover	1,499,798
DMV Administrative Fees	356,417
State ERC Bank Program	510,984
Backup Generator Program	1,290,838
Peaker Plant Program	1,212,907
Dairy CEQA Program	19,706
San Joaquin Valley Blueprint Project	500,000
Development Mitigation Program	6,083,743
Northern Region Office Building Purchase	3,345,000
Total Restricted Net Assets	<u>\$66,096,052</u>

As these restrictions are also reserves of fund balance, a description and the purpose of each program can be found in (Note I.) Reserved Fund Balances.

I. Reserved Fund Balances

Portions of the General Fund balance are reserved for specific future use and are, therefore, not available for appropriation. The amounts and purpose of these reserves are as follows:

General Reserve	\$3,000,000
Reserve for Long-Term Building Maintenance	235,000
Reserve for Encumbrances	2,738,100
Reserve for Northern Region Office Building Purchase	3,345,000
Reserve for Heavy-Duty Program - Incentives	34,749,973
Reserve for DMV Surcharge Fees - Incentives	16,526,686
Reserve for DMV Fees - Rollover	1,499,798
Reserve for DMV Administrative Fees	356,417
Reserve for State ERC Bank Program	510,984
Reserve for Backup Generator Program	1,290,838
Reserve for Peaker Plant Program	1,212,907
Reserve for Dairy CEQA Program	19,706
Reserve for San Joaquin Valley Blueprint Project	500,000
Reserve for Development Mitigation Program	6,083,743
Total Reserved Fund Balance	<u>\$72,069,152</u>
Unreserved Fund Balance	<u>9,906,380</u>
Total Fund Balance	<u>\$81,975,532</u>

- The \$3,000,000 general reserve was established by the District Governing Board to provide for additional financial stability.
- The \$235,000 was established by the District Governing Board to provide a reserve for Long-term Building Maintenance.
- The \$2,738,100 fund balance reserve for encumbrances outstanding at June 30, 2006 represents the amount of expenditures that would result if contracts in process at fiscal year end were completed. This reserve earmarks resources for specific future uses and legally segregates a portion of the fund balance.
- The \$3,345,000 fund balance reserve for the purchase of the Northern Region Office Building is the balance remaining on this purchase. Escrow is scheduled to close in November of 2006.
- The \$34,749,973 fund balance reserve for the Heavy-Duty Program - Incentives represents monies and related interest identified by the District Governing Board for distribution to qualifying Heavy-Duty Programs. The qualifying programs include the Carl Moyer Program, California Energy Commission Funds (CEC), the Traffic Congestion Relief Program (TCRP), and the School Bus Retrofit/Replacement Program.
- The \$16,526,686 fund balance reserve for DMV Surcharge Fees – Incentives represents monies identified by the District Governing Board for distribution to qualifying agencies or individuals in the District's DMV Heavy Duty Emissions Program and the DMV Mobile Source Incentives Program.
- The \$1,499,798 fund balance reserve for the DMV Surcharge Fees – Rollover represents unanticipated revenue, unexpended appropriations specifically identified for District-managed Incentive programs, and interest earned on DMV Surcharge Fee monies.
- The \$356,417 fund balance reserve for the DMV Administrative Fees represents the administrative fee portion of DMV Surcharge Fees received at the fiscal year-end. This reserve will be released to the general fund as incentive contracts are executed and administrative funds are expended.
- The \$510,984 fund balance reserve for the State ERC Bank program represents monies from the California Air Resources Board's NOx and PM Emission Reduction Credit Bank Program. The District will use these funds for Heavy-Duty Engine Emission Reduction Program incentives.

- The \$1,290,838 fund balance reserve for the Backup Generator Program represents monies received from the California Air Resources Board to mitigate emissions from back-up diesel generators or other sources with the same or similar emissions.
- The \$1,212,907 fund balance reserve for the Peaker Plant Mitigation Program represents monies from new and expanding Power Plants to fund mitigation programs focused on Heavy-Duty Engine Projects. The District will use these funds for Heavy-Duty Engine Emission Reduction Program incentives.
- The \$19,706 fund balance reserve for the Dairy CEQA Program represents monies received from dairy permit applicants within the San Joaquin Valley. These monies will be used to fund and execute agreements with dairy project applicants and environmental consultants to prepare CEQA documents for dairy projects where the District is the Lead Agency.
- The \$500,000 fund balance reserve for the San Joaquin Valley Blueprint Project represents monies committed by the District to provide matching funds for the blueprint project. The California Regional Blueprint Program makes available \$5 million per year for two years, 2006, and 2007, to Metropolitan Planning Organizations and Councils of Governments to conduct comprehensive scenario planning that results in consensus by regional leaders, local governments and stakeholders on a preferred growth scenario or "Blueprint" to achieve objectives over a twenty-year planning horizon.
- The \$6,083,743 fund balance reserve for the Development Mitigation Program represents funds received from voluntary developer mitigation contracts. These funds will be used as incentive grants for projects that will offset the projected emissions of proposed future development projects.

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

2. CASH ON HAND AND ON DEPOSIT

Cash on hand and on deposit of June 30, 2006 consisted of the following:

Cash on Hand	
Petty Cash	\$1,200
Postage Funds	18,314
Total Cash On Hand	<u>19,514</u>
Deposits with Financial Institutions	
Wells Fargo Bank	257,448
United States Post Office	2,164
Total Deposits with Financial Institutions	<u>259,612</u>
Investments with County Investment Pools	
Fresno County Treasurer	79,077,207
Kern County Treasurer	845,105
Total Investments with County Investment Pools	<u>79,922,312</u>
Total Cash on Hand and on Deposit	<u><u>\$80,201,438</u></u>

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk and credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
County Investment Pool	N/A	100%	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	<u>\$79,922,312</u>	<u>\$79,922,312</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of the rating required by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, and the actual rating as of year-end for each type. The column marked "exempt from disclosure" identifies those investment types for which GASB No. 40 does not require disclosure as to credit risk:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	Aa	Not Rated
County Investment Pool	<u>\$0</u>	<u>N/A</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$79,922,312</u>

3. CAPITAL ASSETS AND DEPRECIATION

Capital Assets of the District for the year ended June 30, 2006 consisted of the following:

	Capital Assets - Governmental Activities				
	Balance July 1, 2005	Depreciation Expense	Additions	Deletions	Balance June 30, 2006
Land	\$580,000				\$580,000
Building & Improvements	3,142,615				3,142,615
Machinery & Equipment	8,505,520		\$960,980	\$389,045	9,077,455
Totals	<u>12,228,135</u>		<u>960,980</u>	<u>389,045</u>	<u>12,800,070</u>
Less:					
Accumulated Depreciation	<u>5,623,433</u>	<u>928,659</u>	<u>75,981</u>	<u>332,443</u>	<u>6,295,630</u>
Net book value of Capital Assets	<u>\$6,604,702</u>	<u>\$928,659</u>	<u>\$884,999</u>	<u>\$56,602</u>	<u>\$6,504,440</u>

For the year ended June 30, 2006, the depreciation expense of \$672,197 on capital assets was charged to the District's activities as follows:

Permitting	\$645
Enforcement	358,884
Agricultural Burning	2,726
Plan and Rule Development	6,446
Public Education	8,353
Air Quality Analysis	30,378
Air Monitoring	<u>264,765</u>
Total Depreciation Expense	<u>\$672,197</u>

4. COMPENSATED ABSENCES

Unused annual leave is paid at the time of termination. It may accumulate up to a maximum of 560 hours. It is paid at 100% of the hourly rate the employees were earning just prior to termination of their employment with the District.

The following is a summary of earned compensated absences of the District for the year ended June 30, 2006:

July 1, 2005 Balance	\$1,659,446
Plus: Net Increase 7/1/05 - 6/30/06	<u>160,162</u>
June 30, 2006 Balance	<u>\$1,819,608</u>
Amount Due within One Year	<u>\$96,860</u>
Amount Due in More Than One Year	<u>\$1,722,748</u>

5. RETIREMENT PLANS

Plan Description:

The District contributes to the Kern County Employees' Retirement Association (KCERA), a cost-sharing, multiple employer, defined benefit pension plan administered by the Board of Retirement. KCERA provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The County Employees' Retirement Law of 1937 assigns the authority to establish and amend benefit provisions to the Kern County Board of Supervisors. KCERA issues a stand-alone financial report and required supplementary information, which may be obtained by calling the Retirement Board at (661) 868-3790.

Funding Policy

Plan members must contribute a percentage of their annual covered salary, which varies depending upon their age at date of entry in the association. The Average percentage was 2.8% during the year. The District is required to

contribute at an actuarially determined rate. The current contribution is 25.04% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Board of Retirement. The District's contributions to KCERA for each of the last three fiscal years are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2006	\$4,040,113	100%
2005	2,701,422	100%
2004	1,995,013	100%

6. RISK MANAGEMENT

The District participates in a joint powers authority, the Special District Risk Management Authority, (SDRMA) whose purpose is to develop and fund programs of excess insurance for comprehensive liability, property and employee blanket bonds for its member districts.

For the fiscal year 2005-06, the District contributed \$132,196 to the SDRMA. The District's contributions represented 0.7% of all member contributions.

The District has coverage against claims up to a limit of \$10,000,000 for comprehensive general and auto liability and public officials liability, and up to \$400,000 for public employees blanket bond and for the replacement cost of property.

The District's workers compensation insurance carrier during fiscal year 2005-06 was State Compensation Insurance Fund.

7. DEFERRED COMPENSATION PLAN

The District 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 District's deferred compensation administrator, Hartford Life Insurance Co. qualifies as

a plan trustee to meet the federal requirements. In accordance with GASB Statement 32, the District no longer reports plan assets and liabilities in its financial statements.

8. COMMITMENTS

Operating Leases

The District is obligated under operating leases for the rental of office space. The District's rental expense was \$368,477 for the year ended June 30, 2006. Future minimum lease payments under these leases are as follows:

Year Ending June 30, 2007	\$ 310,810
Year Ending June 30, 2008	<u>210,430</u>
Total	<u>\$ 521,240</u>

9. PENDING LITIGATION

There are various lawsuits and claims filed against the District which, in the opinion of the District Counsel, will be resolved with no material adverse effect on the District's financial position or results of operations.

**Required
Supplementary
Information**

San Joaquin Valley Unified Air Pollution Control District
General Fund - Budgetary Comparison Schedule
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance
	Adopted	Final Adjusted		Positive (Negative)
<u>Operating Budget</u>				
Revenues:				
Vehicle Registration Fees	\$ 8,446,000	\$ 8,446,000	\$ 8,719,898	\$ 273,898
License & Permit Fees	10,131,100	11,358,100	11,068,689	(289,411)
Interest	360,000	360,000	424,157	64,157
Penalties & Settlements	1,660,900	1,660,900	5,302,723	3,641,823
State Grants	882,000	882,000	884,253	2,253
Federal Grants	1,945,000	1,945,000	2,135,399	190,399
Miscellaneous Revenue	50,000	181,546	113,966	(67,580)
Operating Amounts Available For Appropriations	<u>23,475,000</u>	<u>24,833,546</u>	<u>28,649,086</u>	<u>3,815,540</u>
Expenditures:				
Salaries and Benefits	21,320,600	22,642,000	21,693,531	948,469
Services & Supplies	4,489,400	4,630,146	3,945,522	684,624
Fixed Assets				
Office Improvements	71,300	71,300	55,108	16,192
Computer Equipment	367,500	402,500	196,160	206,340
Office Furniture/Equipment	58,300	98,900	69,136	29,764
Office Machines	64,800	64,800	34,248	30,552
Telephone System	19,700	22,500	14,772	7,728
Detection Equipment	30,700	30,700	29,550	1,150
Automobiles	386,500	386,500	247,304	139,196
Video Conferencing System	156,100	156,100	17,609	138,491
Air Monitoring Station Equipment	94,000	94,000	26,794	67,206
Electronic Document Management Project	200,000	200,000	1,255	198,745
Northern Region Office Building	-	3,370,000	25,000	3,345,000
Total Fixed Assets	<u>1,448,900</u>	<u>4,897,300</u>	<u>716,935</u>	<u>4,180,365</u>
Total Operating Charges to Appropriations	<u>27,258,900</u>	<u>32,169,446</u>	<u>26,355,988</u>	<u>5,813,458</u>
Excess (deficiency) of Revenues over (under) Expenditures	<u>(3,783,900)</u>	<u>(7,335,900)</u>	<u>2,293,097</u>	<u>9,628,997</u>
<u>Non-Operating Budget</u>				
Revenues:				
Air Toxics Fees - Pass Through	33,000	33,000	33,663	663
Heavy-Duty Engine Emission Program Funds	13,780,000	25,881,510	30,033,677	4,152,167
DMV Surcharge Fees - Pass Through	8,974,000	8,974,000	8,690,623	(283,377)
Lawnmower Trade-In Program	-	-	-	-
Interest - Non-Operating	557,100	557,100	1,369,885	812,785
Federal Grants - Non-Operating	-	-	11,334	11,334
Dairy CEQA Program	-	450,000	50,000	(400,000)
Development Mitigation Program Contracts	-	5,887,195	5,887,195	-
ISR Rule Mitigation Funds	-	1,706,900	-	(1,706,900)
Non-Operating Amounts Available For Appropriations	<u>23,344,100</u>	<u>43,489,705</u>	<u>46,076,378</u>	<u>2,586,673</u>
Expenditures:				
Air Toxics-Pass Through	33,000	33,000	-	33,000
Dairy CEQA Program	-	450,000	30,853	419,147
DMV Surcharge Fees - PM Study	250,000	250,000	250,000	-
Heavy-Duty Engine Emission Program	25,227,300	37,328,810	3,526,149	33,802,661
Federal Grants - Non-Operating	-	-	-	-
Development Mitigation Program Contracts	-	5,887,195	97,182	5,790,013
ISR Rule Mitigation Program	-	1,706,900	-	1,706,900
San Joaquin Valley Blueprint Project	-	500,000	-	500,000
Appropriation for Contingencies	750,000	750,000	-	750,000
Total Non-Operating Charges to Appropriations	<u>26,260,300</u>	<u>46,905,905</u>	<u>3,904,184</u>	<u>43,001,721</u>
Excess (deficiency) of Revenues over (under) Expenditures	<u>(2,916,200)</u>	<u>(3,416,200)</u>	<u>42,172,194</u>	<u>45,588,394</u>

NOTES TO SCHEDULE OF GENERAL FUND BUDGETED AND ACTUAL EXPENDITURES BUDGETARY BASIS

Note 1 – GENERAL FUND BUDGETARY BASIS RECONCILIATION

The General Fund Budgetary Basis on page 35 presents comparisons of the legally Adopted Budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing expenditures data on a budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of differences is presented below for the year ended June 30, 2006.

Deficiency of revenues under expenditures (GAAP Basis)	\$36,533,484
Adjustments for encumbrance activity	(143,517)
Adjustments from budget cash basis to modified accrual basis	<u>8,075,325</u>
Excess of revenues over expenditures (Budgetary Basis)	<u>\$44,465,292</u>

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

Note 2 - BUDGETING

In accordance with the provisions of the State Health and Safety Code Section 40131, the District's Formation Agreement, and the District's Administrative Code, the District prepares and legally adopts a final balanced budget on or before June 30 of each fiscal year. The final Adopted Budget is available for review in the District's Finance Office.

Budgetary control is exercised at the object level. All amendments or transfers of appropriations between these levels are authorized by the Executive Director/APCO and must be approved by the District Governing Board. The Board also must approve supplemental appropriations financed by unanticipated revenues.

Expenditures, except for Fixed Assets, are controlled at the object level for all program budgets within the District. Fixed Assets are controlled at the sub-object level.

Statistical Section

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

STATEMENT OF NET ASSETS Last Four Fiscal Years

(accrual basis of accounting)

(In Thousands)

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Current and Other Assets	\$55,020	\$49,920	\$46,872	\$83,825
Capital Assets	6,232	5,840	6,605	6,504
Total Assets	<u>61,252</u>	<u>55,760</u>	<u>53,477</u>	<u>90,329</u>
Current Liabilities	2,083	1,092	1,430	1,849
Noncurrent Liabilities	1,435	1,432	1,581	1,723
Total Liabilities	<u>3,518</u>	<u>2,524</u>	<u>3,011</u>	<u>3,572</u>
Net Assets:				
Invested in Capital Assets, net of related debt	6,232	5,840	6,605	6,504
Restricted for Special Projects/Programs	34,084	30,494	27,454	66,096
Unrestricted	17,418	16,902	16,407	14,157
Total Net Assets	<u>\$57,734</u>	<u>\$53,236</u>	<u>\$50,466</u>	<u>\$86,757</u>

Source:

San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

CHANGES IN NET ASSETS Last Four Fiscal Years

(accrual basis of accounting)

(In Thousands)

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Revenue:				
Program Revenue				
Fees and Charges - Stationary Sources	\$8,423	\$8,581	\$9,312	\$10,413
Fees and Charges - Mobile Sources	9,907	10,100	13,007	11,329
Operating Grants	2,107	1,940	1,997	2,135
Restricted Special Revenue Sources	5,238	3,660	7,141	44,101
General Revenues				
State Subvention	866	868	876	884
Interest	412	328	354	424
Penalties/Settlements	2,813	3,306	3,239	5,393
Miscellaneous	79	141	243	46
Total Revenue	<u>\$29,845</u>	<u>\$28,924</u>	<u>\$36,169</u>	<u>\$74,725</u>
Expenses:				
Permitting	\$6,800	\$7,787	\$9,005	\$9,614
Enforcement	6,405	7,076	7,376	8,182
Agricultural Burning	637	1,422	1,286	1,053
Plan and Rule Development	2,090	2,109	2,472	2,894
Mobile Sources	890	882	1,052	1,182
Public Education	1,229	1,284	1,552	1,806
Air Quality Analysis	797	885	996	1,421
Air Monitoring	1,097	1,442	1,126	1,520
Non-Operating	15,701	10,535	14,075	10,762
Total Expenses	<u>\$35,646</u>	<u>\$33,422</u>	<u>\$38,940</u>	<u>\$38,434</u>
Increase / (Decrease) - Changes in Net Assets	<u>(\$5,801)</u>	<u>(\$4,498)</u>	<u>(\$2,771)</u>	<u>\$36,291</u>

Source:

San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

**FUND BALANCES , GENERAL FUND
Last Four Fiscal Years**

(modified accrual basis of accounting)

(In Thousands)

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
General Fund:				
Reserved	\$39,137	\$37,065	\$33,531	\$72,069
Unreserved	13,801	11,763	11,911	9,907
Total General Fund	<u>\$52,938</u>	<u>\$48,828</u>	<u>\$45,442</u>	<u>\$81,976</u>

Source:

San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

CHANGES IN FUND BALANCE, GENERAL FUND Last Four Fiscal Years

(modified accrual basis of accounting)
(In Thousands)

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Revenues:				
Program Revenues:				
Fees and Charges - Stationary Sources	\$8,423	\$8,581	\$9,312	\$10,413
Fees and Charges - Mobile Sources	9,907	10,100	11,013	11,329
Operating Grants	2,107	1,940	1,996	2,135
Restricted Special Revenue Sources	5,238	3,660	9,135	44,101
General Revenues:				
State Subvention - Not Resetricted	866	868	876	884
Interest - Not Resetricted	413	328	354	424
Penalties/Settlements	2,812	3,306	3,239	5,393
Miscellaneous Revenue	79	141	244	46
Total Revenue	<u>29,845</u>	<u>28,924</u>	<u>36,169</u>	<u>74,725</u>
Expenses:				
Operating:				
Salaries and Benefits	15,136	17,084	19,825	21,693
Services and Supplies	3,570	3,673	4,038	4,464
Capital Outlay	1,354	1,742	1,617	1,273
Total Operating Expenditures	<u>20,060</u>	<u>22,499</u>	<u>25,480</u>	<u>27,430</u>
Non-Operating:				
Pass Through and Non-Operating	<u>15,700</u>	<u>10,535</u>	<u>14,075</u>	<u>10,762</u>
Total Expenditures	<u>35,760</u>	<u>33,034</u>	<u>39,555</u>	<u>38,192</u>
Net Change in Fund Balance - Prior to Adjustment	(5,915)	(4,110)	(3,386)	36,533
Adjustment to Fund Balance	792	-	-	-
Net Change in Fund Balance	<u>(\$5,123)</u>	<u>(\$4,110)</u>	<u>(\$3,386)</u>	<u>\$36,533</u>

Source:

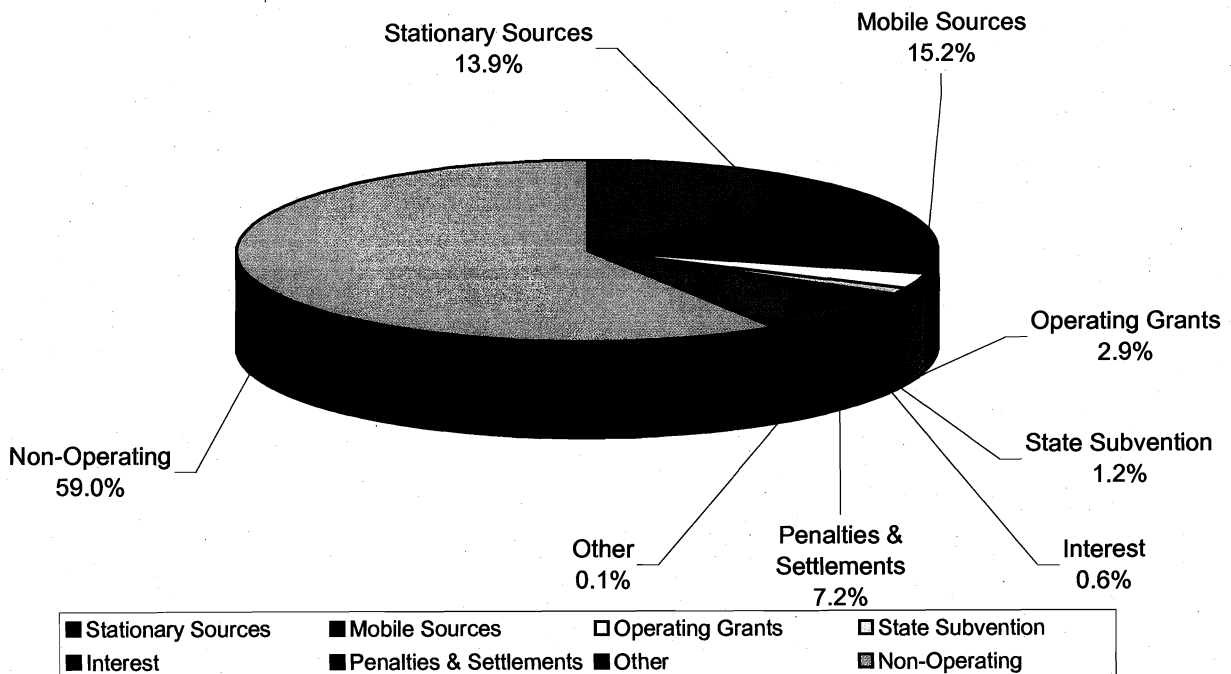
San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

OPERATING REVENUES BY PROGRAM ACTIVITY Last Four Fiscal Years

Program Activity	2002-03	2003-04	2004-05	2005-06
Stationary Sources	8,423,118	8,581,027	9,312,515	10,413,416
Mobile Sources	9,906,955	10,100,150	11,012,746	11,328,423
Operating Grants	2,107,134	1,939,993	1,996,641	2,135,399
State Subvention	865,892	867,800	875,794	884,253
Interest	412,430	327,939	353,835	424,158
Penalties & Settlements	2,812,742	3,306,435	3,239,049	5,392,669
Other	78,755	140,711	243,502	46,446
Non-Operating	5,237,991	3,659,999	9,135,314	44,100,700
Total Revenue	29,845,017	28,924,054	36,169,396	74,725,464

FY 05-06 OPERATING REVENUES BY PROGRAM ACTIVITY



Notes:

Other includes: Miscellaneous Revenue and Subscriptions

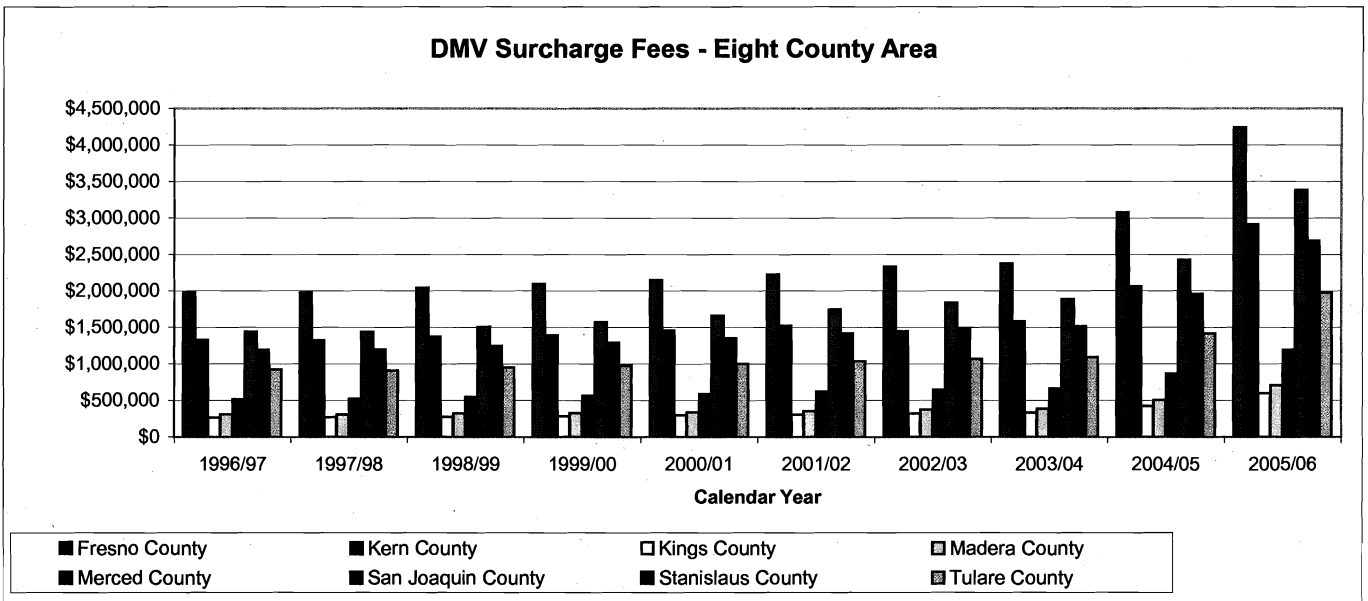
Source:

San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

San Joaquin Valley Unified Air Pollution Control District

DMV SURCHARGE FEES - EIGHT COUNTY AREA Last Ten Fiscal Years

Fiscal Year	Fresno County	Kern County	Kings County	Madera County	Merced County	San Joaquin County	Stanislaus County	Tulare County	Total	% Increase
1996/97	1,989,797	1,331,817	266,888	313,317	520,005	1,437,875	1,193,623	926,485	7,979,807	2.93%
1997/98	1,975,546	1,323,147	270,975	305,438	520,958	1,439,693	1,196,882	910,597	7,943,236	-0.46%
1998/99	2,046,657	1,372,778	278,390	325,006	546,936	1,508,702	1,247,101	952,512	8,278,082	4.22%
1999/00	2,094,622	1,397,104	285,207	327,130	565,313	1,573,808	1,293,200	975,501	8,511,885	2.82%
2000/01	2,150,677	1,455,402	299,542	336,909	589,162	1,665,743	1,351,551	1,000,762	8,849,748	3.97%
2001/02	2,227,493	1,523,782	308,038	357,055	623,319	1,748,164	1,419,123	1,038,981	9,245,955	4.48%
2002/03	2,332,851	1,443,497	321,647	373,073	647,110	1,839,549	1,494,038	1,067,073	9,518,838	2.95%
2003/04	2,379,559	1,584,515	331,516	387,595	664,317	1,893,093	1,514,331	1,093,248	9,848,174	3.46%
2004/05	3,079,191	2,061,601	426,999	509,137	867,833	2,428,456	1,959,813	1,419,005	12,752,035	29.49%
2005/06	4,242,477	2,912,463	596,583	705,113	1,195,142	3,386,635	2,686,686	1,980,099	17,705,198	38.84%



Notes:

The San Joaquin Valley Unified Air Pollution Control District encompasses all of Fresno, Kings, Madera, Merced, San Joaquin, Stanislaus, Tulare, and the valley portion of Kern County.

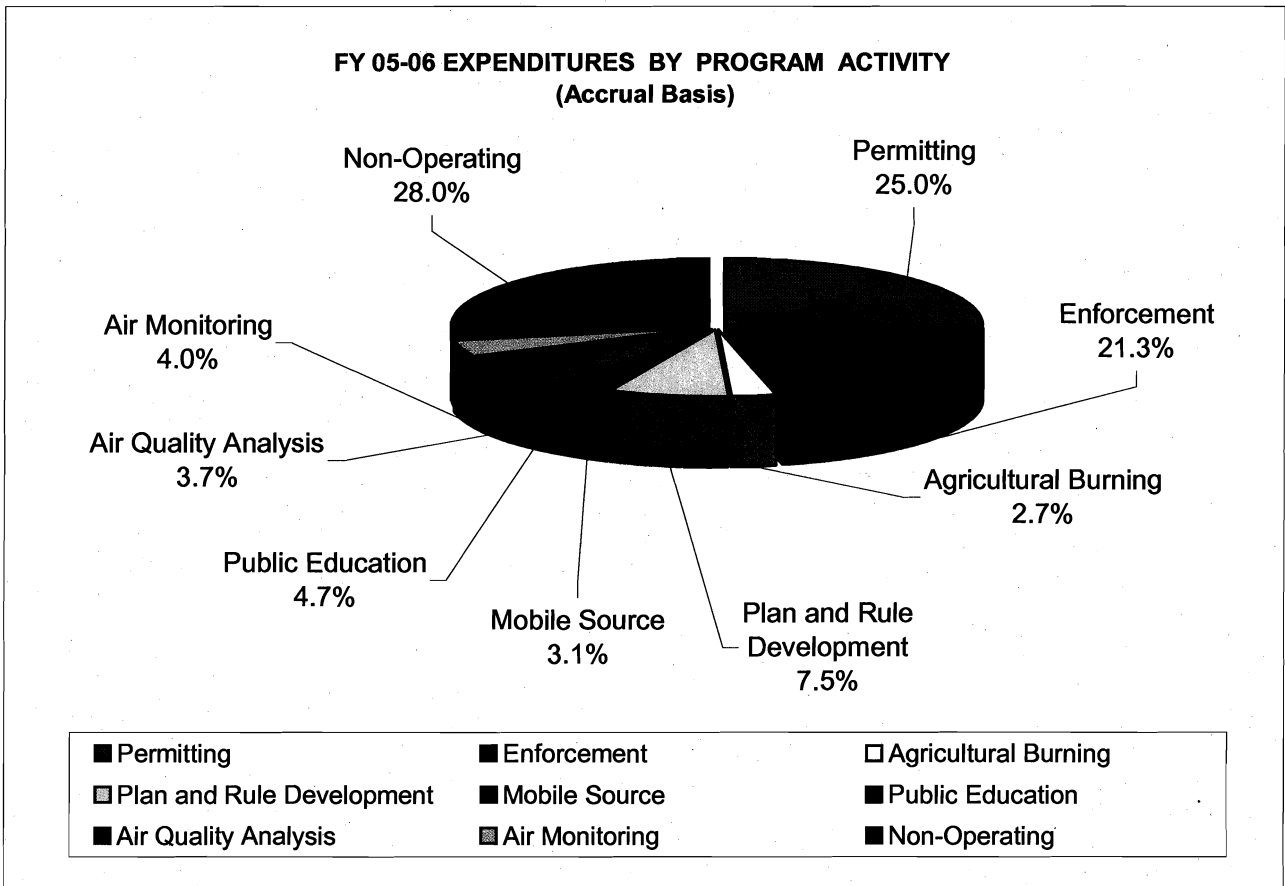
Starting in 2004/005 Total DMV Surcharge Fees include fund from AB2766, SB709, and AB923.

Source: California Department of Motor Vehicles

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

OPERATING EXPENDITURES BY PROGRAM ACTIVITY - (Accrual Basis) Last Four Fiscal Years

Program Activity	2002-03	2003-04	2004-05	2005-06
Permitting	6,550,024	7,786,585	9,004,901	9,614,325
Enforcement	6,213,424	7,076,429	7,376,463	8,182,446
Agricultural Burning	791,354	1,422,298	1,285,614	1,052,751
Plan and Rule Development	2,010,417	2,108,605	2,471,801	2,893,886
Mobile Source	855,101	882,217	1,051,588	1,181,484
Public Education	1,538,187	1,283,592	1,552,531	1,805,975
Air Quality Analysis	910,083	884,659	996,157	1,421,034
Air Monitoring	1,076,695	1,442,041	1,126,441	1,520,391
Non-Operating	15,700,625	10,535,266	14,074,560	10,761,689
Total Expenditures	35,645,910	33,421,692	38,940,056	38,433,981



Source:

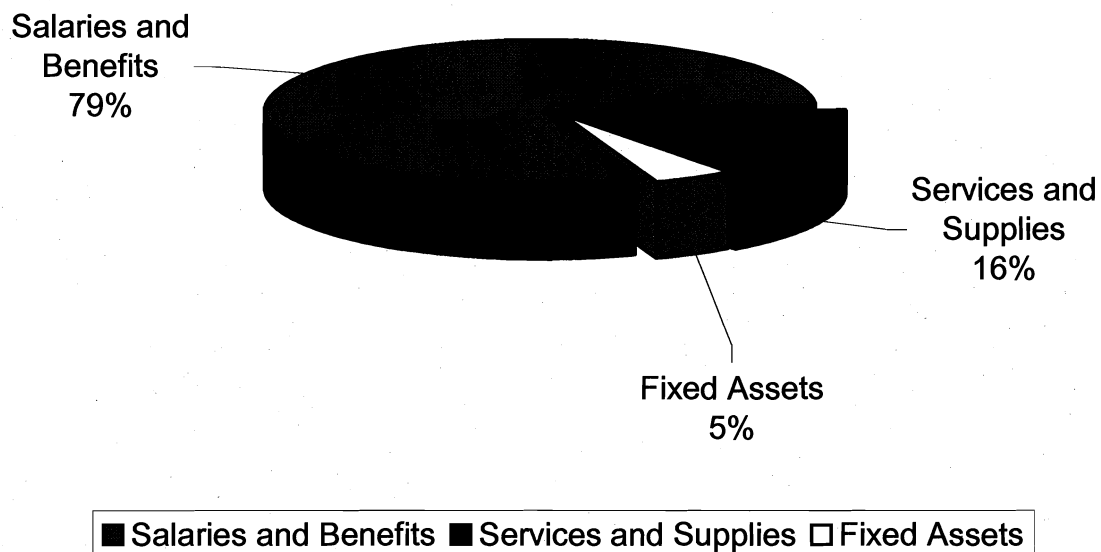
San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

OPERATING EXPENDITURES BY BUDGET OBJECT LEVEL Last Ten Fiscal Years

Fiscal Year	Salaries and Benefits	Services and Supplies	Fixed Assets	Total Operating Expenditures
1996/97	10,861,833	2,950,513	1,661,982	15,474,328
1997/98	10,849,743	2,788,296	1,244,565	14,882,604
1998/99	10,847,610	2,813,565	4,541,909	18,203,084
1999/00	10,855,699	2,747,996	1,133,363	14,737,058
2000/01	11,399,829	2,953,265	1,021,780	15,374,874
2001/02	13,053,755	3,460,986	1,708,566	18,223,307
2002/03	15,135,708	3,570,051	1,354,016	20,059,775
2003/04	17,083,592	3,673,348	1,741,708	22,498,648
2004/05	19,824,791	4,038,448	1,617,469	25,480,708
2005/06	21,693,531	4,463,578	1,273,182	27,430,291

FY 05-06 Operating Expenditures by Budget Object Level



Source:

San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

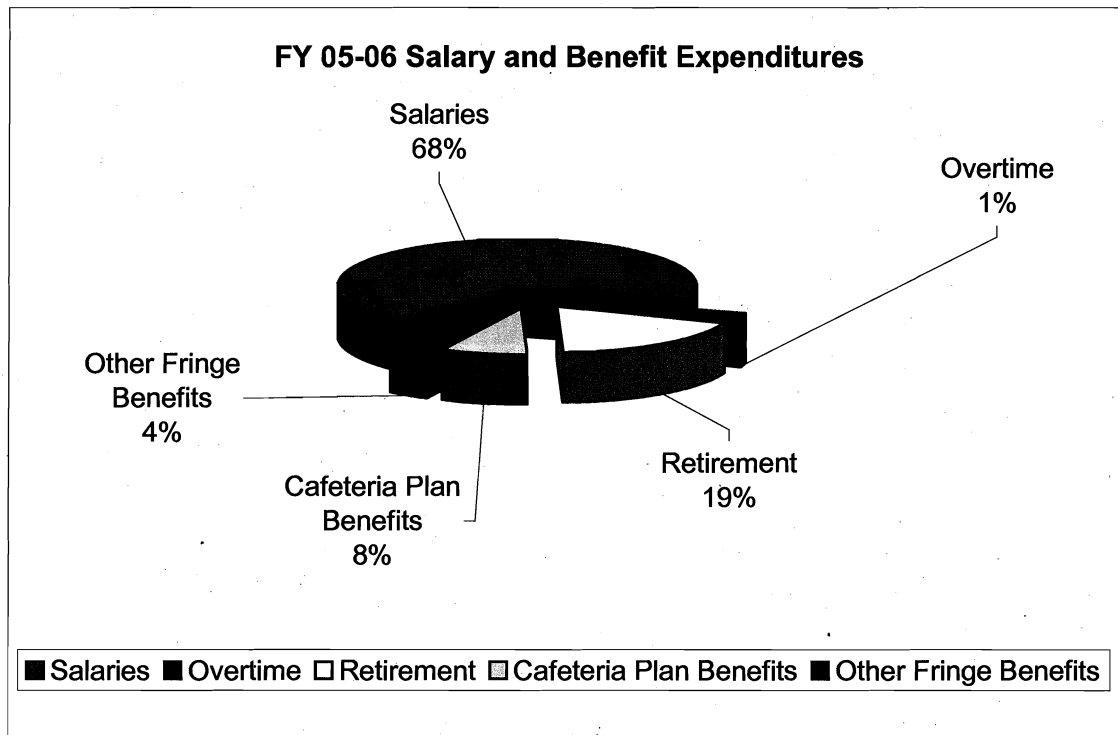
SALARY AND BENEFIT EXPENDITURES Last Ten Fiscal Years

Fiscal Year	Salaries	Overtime	Retirement	Cafeteria Plan Benefits	Other Fringe Benefits	Total Salaries and Benefits
1994/95	7,511,441	79,842	906,298	670,956	263,224	9,431,761
1995/96	8,197,863	76,803	947,309	757,332	286,996	10,266,303
1996/97	8,667,393	88,298	866,728	780,808	326,120	10,729,347
1997/98	8,718,119	72,861	991,179	763,771	289,137	10,835,067
1998/99	8,728,060	160,989	928,848	762,857	267,169	10,847,923
1999/00	8,840,651	156,885	824,692	775,262	269,208	10,866,698
2000/01	8,955,997	209,668	914,024	878,958	214,213	11,172,860
2001/02	10,286,165	269,340	1,028,358	1,161,467	308,425	13,053,755
2002/03	11,431,697	251,189	1,722,223	1,255,852	474,747	15,135,708
2003/04	12,760,813	226,307	1,995,013	1,398,170	703,289	17,083,592
2004/05	14,325,161	269,618	2,701,422	1,572,390	956,200	19,824,791
2005/06	14,850,007	254,625	4,040,114	1,700,021	848,764	21,693,531

Notes:

Salaries Includes: Regular Salaries, Temporary Help, and On Call Pay.

Other Fringe Benefits Includes: Unemployment Insurance, OASDI Insurance, Worker's Compensation Contributions, Long Term Disability Insurance, and Alternate Transportation Incentive.



Source:

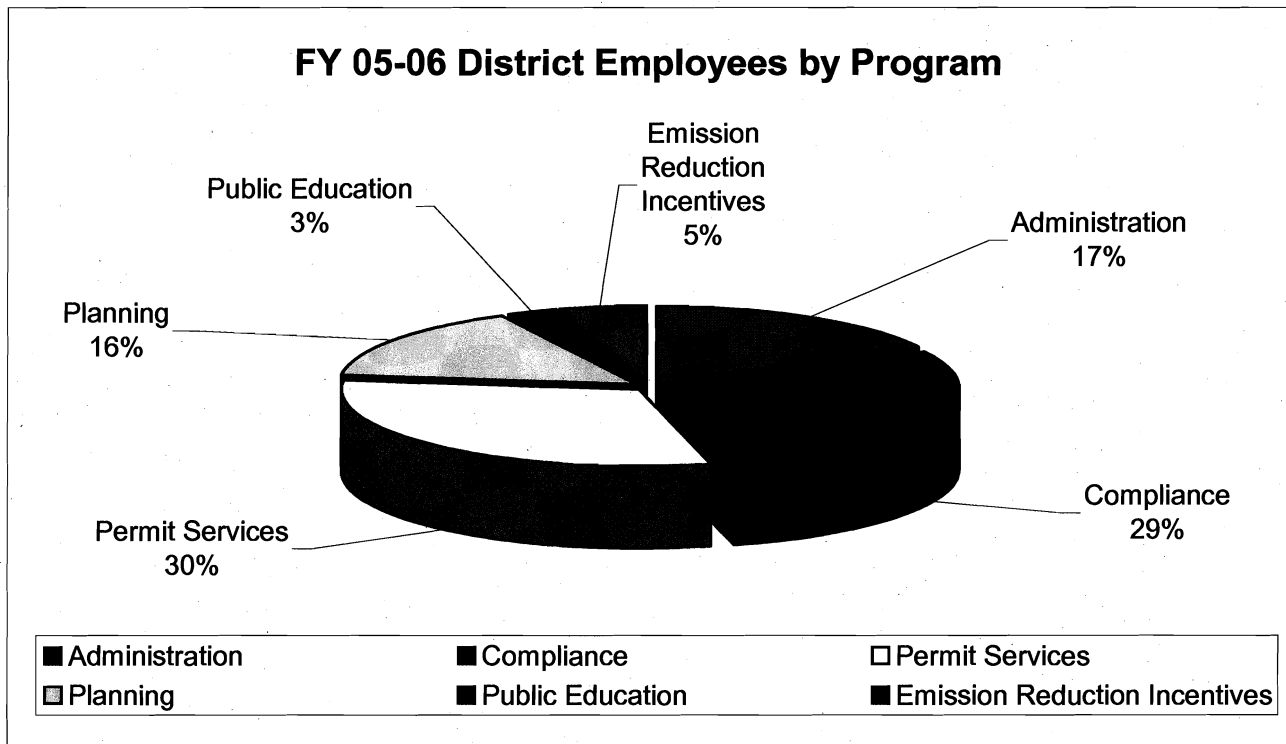
San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY UNIFIED AIR POLLUTION CONTROL DISTRICT

DISTRICT EMPLOYEES BY PROGRAM

Adjusted Budget @ June 30
Last Ten Fiscal Years

Fiscal Year	Administration	Compliance	Permit Services	Planning	Public Education	Emission Reduction Incentives	Total Employees
1996/97	45	60	61	37	3	0	206
1997/98	42	61	61	37	3	0	204
1998/99	42	61	60	37	4	0	204
1999/00	42	61	59	37	4	0	203
2000/01	40	70	63	34	6	6	219
2001/02	41	70	67	37	6	9	230
2002/03	42	71	73	39	6	9	240
2003/04	49	78	89	40	6	9	271
2004/05	48	83	85	44	8	10	278
2005/06	50	83	89	45	8	14	289

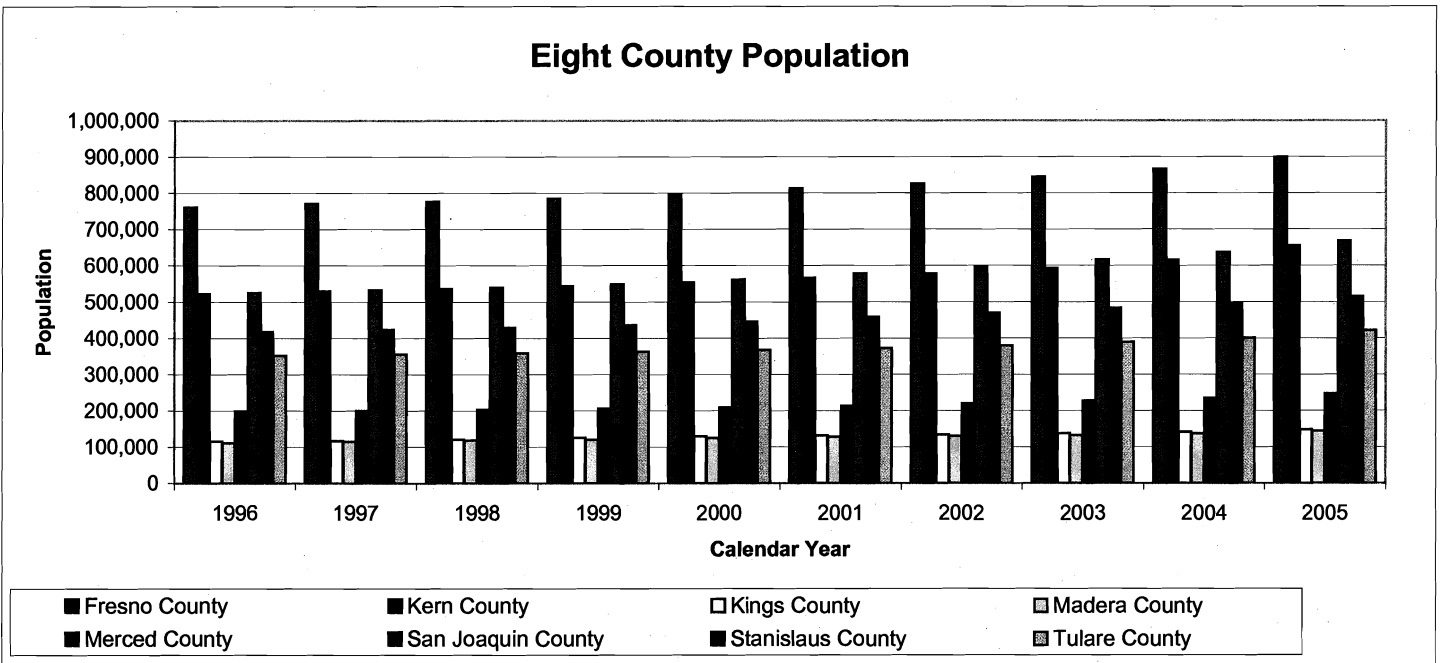


Source:
San Joaquin Valley Unified Air Pollution Control District Audited Financial Statements

SAN JOAQUIN VALLEY AIR POLLUTION CONTROL DISTRICT

EIGHT COUNTY POPULATION Last Ten Calendar Years

Year	Fresno County	Kern County	Kings County	Madera County	Merced County	San Joaquin County	Stanislaus County	Tulare County	Total	% Increase
1996	761,100	522,800	116,000	111,700	198,600	525,400	417,500	351,900	3,005,000	1.31%
1997	770,600	529,900	117,100	115,300	200,100	532,600	423,200	355,100	3,043,900	1.29%
1998	777,600	536,100	120,700	118,100	203,200	540,100	429,100	358,700	3,083,600	1.30%
1999	785,000	543,500	125,400	120,300	205,900	549,200	436,100	362,200	3,127,600	1.43%
2000	797,900	554,600	128,800	124,500	208,800	561,200	445,900	367,000	3,188,700	1.95%
2001	813,200	565,800	131,300	128,600	213,000	578,600	457,700	372,400	3,260,600	2.25%
2002	826,600	577,600	133,100	129,700	218,900	596,000	469,500	379,200	3,330,600	2.15%
2003	845,600	592,500	137,400	131,500	227,000	616,500	483,000	388,600	3,422,100	2.75%
2004	866,500	615,200	141,500	136,900	234,200	636,500	494,800	400,100	3,525,700	3.03%
2005	899,500	655,100	147,700	144,400	246,800	668,300	514,400	420,600	3,696,800	8.03%



Notes:
The San Joaquin Valley Unified Air Pollution Control District encompasses all of Fresno, Kings, Madera, Merced, San Joaquin, Stanislaus, Tulare, and the valley portion of Kern County.

Source: California State Department of Finance - Demographic Research Unit - (SJVUAPCD Portion of Kern County estimated at 84%)

San Joaquin Valley Unified Air Pollution Control District

Demographic and Miscellaneous Statistics

District Established:	March 21, 1991
Area Covered:	25,000 Square Miles
Counties Included in District:	San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings, Tulare, and the valley portion of Kern County
Population:	3,696,800 (2005)
Transportation:	Two Transcontinental Railroads – Burlington Northern Santa Fe and the Union Pacific Six Commercial Airports – Stockton Metro, Modesto, Merced Municipal, Fresno Yosemite, Visalia Municipal, and Meadows Field (Bakersfield) Two Major Interstate Freeways – California State Highway 99 and U.S. Interstate Highway 5 One Major Port – Port of Stockton
Visitor Destinations:	Yosemite National Park, Kings Canyon, National Park, Sequoia National Park
Number of Registered Vehicles:	2,599,700 (6/30/06) Estimate
Stationary Sources of Air Pollution Regulated	Oil Refineries, Oil Production Equipment, Power Plants, Manufacturing and Processing Facilities, Emergency Generators, Paint Spray Booths, Service Stations, Agricultural Operations, and Dry Cleaners
Number of Sources:	Approximately 15,000 operating locations with more than 6,000 Agricultural Conservation Management Practice Plans and 27,000 permits
Number of Air Monitoring Stations:	28, District, ARB, and National Park Service Combined
District Full-time Authorized Positions:	291
Adopted FY 2005-06 Budget:	\$89,763,700