February 3, 2006

Board of Directors
Southwest Clean Air Agency
Vancouver, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Southwest Clean Air Agency’s financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Agency's financial condition.

In addition to this work, we look at other areas of our audit client’s operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR
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Southwest Clean Air Agency  
Clark County  
July 1, 2004 through June 30, 2005

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<tbody>
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<td>Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with Government Auditing Standards</td>
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<td>Independent Auditor’s Report on Financial Statements</td>
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<tr>
<td>Financial Section</td>
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</tr>
</tbody>
</table>
The results of our audit of the Southwest Clean Air Agency are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

- An unqualified opinion was issued on the Agency’s financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the Agency.
- We issued an unqualified opinion on the Agency’s compliance with requirements applicable to its major federal programs.
- We reported no findings which are required to be disclosed under OMB Circular A-133.
- We noted in our Independent Auditor’s Report on Financial Statements that the Schedule of Expenditures of Federal Awards was fairly presented.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.
- The Agency did not qualify as a low-risk auditee under OMB Circular A-133.
- The following were major programs during the period under audit:

<table>
<thead>
<tr>
<th>CFDA No</th>
<th>Program Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>66.605</td>
<td>Performance Partnership Grant</td>
</tr>
<tr>
<td>66.606</td>
<td>Surveys, Studies, Investigation and Special Purpose Grants Cluster Special</td>
</tr>
<tr>
<td></td>
<td>Programs for the Aging – Title 111</td>
</tr>
</tbody>
</table>
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with Government Auditing Standards

Southwest Clean Air Agency
Clark County
July 1, 2004 through June 30, 2005

Board of Directors
Southwest Clean Air Agency
Vancouver, Washington

We have audited the financial statements of the Southwest Clean Air Agency, Clark County, Washington, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 1, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Agency’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Agency’s financial statements are free of material misstatement, we performed tests of the Agency’s compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards.
This report is intended for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 1, 2005
Independent Auditor’s Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Southwest Clean Air Agency
Clark County
July 1, 2004 through June 30, 2005

Board of Directors
Southwest Clean Air Agency
Vancouver, Washington

COMPLIANCE

We have audited the compliance of the Southwest Clean Air Agency, Clark County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2005. The Agency’s major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Agency’s management. Our responsibility is to express an opinion on the Agency’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency’s compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 1, 2005
Independent Auditor’s Report on Financial Statements

Southwest Clean Air Agency  
Clark County  
July 1, 2004 through June 30, 2005

Board of Directors  
Southwest Clean Air Agency  
Vancouver, Washington

We have audited the accompanying financial statements of the Southwest Clean Air Agency, Clark County, Washington, for the year ended June 30, 2005. These financial statements are the responsibility of the Agency’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.

As described in Note 1 to the financial statements, the Agency prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the Budgeting, Accounting and Reporting System (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Southwest Clean Air Agency, for the year ended June 30, 2005, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report on our consideration of the Agency’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. This schedule is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit.
of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 1, 2005
Financial Section

Southwest Clean Air Agency
Clark County
July 1, 2004 through June 30, 2005

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2005
Notes to Financial Statements – 2005

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2005
Notes to Schedule of Expenditures of Federal Awards – 2005
<table>
<thead>
<tr>
<th>BARS CODE</th>
<th>Fund Number And Name</th>
<th>Fund Number And Name</th>
</tr>
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<td></td>
<td>6901 Operating</td>
<td>6907 Reserve</td>
</tr>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
</tr>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
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<tr>
<td>Beginning Net Cash and Investments</td>
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<td>$742,117</td>
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<tr>
<td>Revenues and Other Sources</td>
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<td></td>
</tr>
<tr>
<td>310 Taxes</td>
<td></td>
<td></td>
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<tr>
<td>320 Licenses and Permits</td>
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<td></td>
</tr>
<tr>
<td>330 Intergovernmental</td>
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<td>$1,814,613</td>
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<tr>
<td>340 Charges for Goods and Services</td>
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<td>350 Fines and Forfeits</td>
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<tr>
<td>360 Miscellaneous</td>
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<tr>
<td>390 Other Financing Sources</td>
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<td>$744,086</td>
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<tr>
<td>Total Revenues and Other Sources</td>
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<td>$2,765,843</td>
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<tr>
<td>Total Resources</td>
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<td>$744,086</td>
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<td>Operating Expenditures</td>
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<tr>
<td>510 General Government</td>
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<td>520 Security of Persons and Property</td>
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<td>530 Physical Environment</td>
<td>$2,779,664</td>
<td>$2,765,843</td>
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<td>540 Transportation</td>
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<td>550 Economic Environment</td>
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<td>560 Mental and Physical Health</td>
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<td>570 Culture and Recreational</td>
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<tr>
<td>Total Operating Expenditures</td>
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<td>$2,765,843</td>
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<td>591-93 Debt Service</td>
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<td>504-96 Capital Outlay</td>
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<tr>
<td>Total Expenditures</td>
<td>$2,779,664</td>
<td>$2,765,843</td>
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<tr>
<td>597-599 Other Financing Uses</td>
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<tr>
<td>Total Expenditures &amp; Other Uses</td>
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<td>Excess (Deficit) of Resources Over Uses</td>
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<tr>
<td>380 Nonrevenues (Except 384)</td>
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<td></td>
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<td>580 Nonexpenditures (Except 584)</td>
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<tr>
<td>Ending Net Cash and Investments</td>
<td>$1,480,645</td>
<td>0.00</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
The following notes are an integral part of the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southwest Clean Air Agency herein after referred to as the Agency uses the revenue and expenditure classifications contained in the Budgeting Accounting and Reporting System (BARS) manual. The manual is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. The Agency was incorporated on May 7, 1968 and operates under the laws of the State of Washington applicable to an Air Pollution Agency. The Agency is a general purpose governmental entity and provides a program to achieve and maintain levels of ambient air quality to protect public health and safety for Southwest Washington. The Agency uses a single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprise its cash, investments, revenues and expenditures, as appropriate. The Agency's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types and account groups used by the Agency.

GOVERNMENTAL FUND TYPES:

Governmental fund operating statements focus on measuring changes in financial position, rather than net income; they present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

General Fund – 6901 Operating Fund

This fund is the primary operating fund of the Agency. It accounts for all financial resources except those required or elected to be accounted for in another fund. In August 2004, with Board of Director’s approval, the Diesel School Bus Reserve was established to identify revenues received in advance from the Diesel School Bus Retrofit Grant awarded by Washington State Department of Ecology.

Reserve Fund – 6907 Reserve Fund

This fund was for revenues that are designated to finance particular activities of the Agency. These activities include, but are not limited to providing services to the general public and are supported through fees. These funds were for the Air Operating Permit Reserve, Depreciation Reserve, Liability Reserve, Modeling Reserve, and Vacation/Sick Reserve. Funds collected the previous fiscal year for expenditure in the subsequent fiscal year also resided in this account. However, as of July 29, 2004, all monies were transferred to General Fund 6901 in the amount of $738,993, plus $5,093 in investment losses. All future transactions will be accounted for in General Fund 6901.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriates as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.
C. Budgets

1. Scope of Budget

Annual appropriated budget is adopted for fund 6901.

Annual appropriated budgets are adopted by the Board of Directors and constitute the legal authority for expenditures. Annual appropriations for the general fund lapse at year end.

Any revisions that alter the total expenditures of the fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved the Board of Directors.

2. Procedures for Adopting the Original Budget

The Agency's budget procedures are mandated by Chapters (35.33/35A.33) RCW. The steps in the budget process are as follows:

a. Prior to May 1, the Executive Director submits a proposed budget to the Board of Directors. The budget is based on priorities established by the Board and estimates provided by the Director, during the preceding months, and balanced with revenue estimates made by the Director.

b. The Board of Directors conducts hearings on the proposed budget in May and June.

c. The Board of Directors makes its adjustments to the proposed budget and adopts by resolution a final balanced budget no later than June 30.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

D. Cash

It is the Agency's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is posted to the General Fund 6901.

E. Deposits

The Agency's deposits are covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

F. Capital Assets

General fixed assets are long-lived assets of the Agency as a whole and are recorded as expenditures when purchased. No general fixed assets account group is established which is a departure from generally accepted accounting principles.

G. Compensated Absences

Vacation pay, which may be accumulated up to a maximum of 320 hours payable upon resignation, retirement or death. Sick leave pay, which may be accumulated up to a maximum of 1,200 hours is payable after 10 years of service, upon resignation, retirement, or death at a rate described in the personnel manual for PERS 1 Employees. The same provisions apply to PERS 2 Employees except they are not entitled to include sick leave payoff in their retirement pay calculations.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the Agency.
NOTE 3 – INVESTMENTS

The Agency investments are either insured, registered or held by Agency or its agent in the Agency’s name. At June 30, 2005, the Clark County Treasurer was holding $1,480,014.38 in short-term residual investments in the Clark County Investment Pool and $630.70 of surplus cash.

NOTE 4 - RECEIVABLES

Amounts due from other governmental units include per capita assessments. $49,924.48 remained due and payable prior to June 30, 2005.

NOTE 5 – ACCUMULATED UNPAID EMPLOYEE LEAVE BENEFITS

The Agency did not record accumulated unused vacation and sick leave in its General Fund 6901 until this current 2004/2005 fiscal year. For governmental funds, the Agency’s liability for accumulated unused vacation on June 30, 2005 for 2239.22 hours was $65,615.78. Accumulated unused sick leave on June 30, 2005 for 6784.65 hours was valued at $203,851.69 but is limited by the sick leave payout provision in Note 1, Section G – Compensated Absences.

NOTE 6 - PENSION PLANS

All of the Agency’s full-time and qualifying part-time employees participate in the statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the Agency’s financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA  98504-8380

NOTE 7 - RISK MANAGEMENT

The Agency is a member of the Washington Governmental Entity Insurance Pool (WGEP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act.

The Pool was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool now services cities, counties, health districts, port districts, water and irrigation districts, fire districts, mosquito and week control districts, library districts, air pollution districts, area on aging, regional mental health support networks, cemetery, park and recreation and conservation districts.

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. The Pool provides “occurrence” policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk” basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $50 million for all members. The Pool offers employee dishonesty coverage up to a liability limit of $1,000,000.
Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a “per occurrence” $250,000 deductible on liability loss, $25,000 deductible on property loss, and $2,500 deductible on boiler and machinery loss. The member is responsible for the first $1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining $249,000 on liability losses, $24,000 on property loss, $1,500 on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the Pool is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the pool for a minimum of three (3) years and must give notice 60 days before terminating participation. Members joining after October 2000 join the pool with one (1) full fiscal year commitment and must give notice six (6) months before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three (3) year period. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Washington Governmental Entity Pool, and are administered in house.

A Board of Directors consisting of seven (7) members governs the Pool. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of the Pool.

NOTE 8 - LONG TERM DEBT
The Southwest Clean Air Agency has no material or long term debt obligations.

NOTE 9 – SUBSEQUENT EVENTS
The Southwest Clean Air Agency has no Subsequent Events.
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2005

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grantor/Program Title</td>
<td>Identification Number</td>
<td>Other Identification Number</td>
<td>Current Year Expenditures</td>
</tr>
<tr>
<td>Air Pollution Control Program Support (Ozone Maintenance)</td>
<td>66.001</td>
<td>A-00037503</td>
<td>56,256</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>Sub-total 56,256</td>
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<tr>
<td>Surveys, Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act (PM2.5 Monitor)</td>
<td>66.034</td>
<td>CO-300273, WDOE/G0400305</td>
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<td></td>
<td></td>
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<td>Sub-total 14,177</td>
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<td>Performance Partnership Grants (CORE)</td>
<td>66.605</td>
<td>WDOE/G0400056</td>
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<tr>
<td>Performance Partnership Grants (Haze Gradient)</td>
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<td>WDOE/G0400056</td>
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<td>Performance Partnership Grants (Longview Air Toxics Monitoring)</td>
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<td>WDOE/G0400056</td>
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<tr>
<td><strong>Total Federal Assistance</strong></td>
<td></td>
<td></td>
<td><strong>$623,767</strong></td>
</tr>
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</table>
NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the Southwest Clean Air Agency's financial statements. The Agency uses the cash basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the State or Federal portion of the program costs. Actual program costs, including the Agency's portion, may be more than shown.