
MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

*Basic Financial Statements As Of and For The Year
Ended June 30, 2009 and Independent Auditors' Report*



MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report on Basic Financial Statements	1
Management's Discussion and Analysis	2-7
Basic Financial Statements as of and for the Year Ended June 30, 2009:	
Statement of Net Assets	8
Statement of Activities	9
Balance Sheet - General Fund	10
Reconciliation of the Balance Sheet - General Fund to the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund to the Statement of Activities	13
Notes to Basic Financial Statements	14-22
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund	23



ryan & mcdonald
certified public accountants

INDEPENDENT AUDITORS' REPORT

The Board of Directors of the **Monterey Bay Unified Air Pollution Control District**:

We have audited the accompanying basic financial statements of the **Monterey Bay Unified Air Pollution Control District** (the "District") as of and for the year ended June 30, 2009, listed in the foregoing table of contents. These financial statements are the responsibility of the management of the District. 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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 financial position of the governmental activities of the District at June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 6 and the budgetary comparison schedule on page 22 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ryan E. McDonald LLP

December 3, 2009

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Our discussion and analysis of the Monterey Bay Unified Air Pollution Control District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with 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 \$18.39 million (*net assets*). Of this amount, \$9.98 million (*restricted net assets*) are legally restricted for debt service and other purposes.
- The District's total net assets increased by \$2.40 million over the prior year.
- As of the close of the fiscal year, the District's General Fund reported an ending fund balance of \$20.06 million, an increase of \$2.06 million in comparison to the prior year.
- Out of the total General Fund balance of \$20.06 million at the end of the fiscal year, \$10.08 million represents the unreserved fund balance. Although designated as unreserved, this balance does include funds received from the DMV which are somewhat limited in their use. The remaining balance of \$9.98 million is reserved for grants and unavailable assets.

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 and other supplementary information to the basic financial statements.

In general, the purpose of financial reporting is to provide the external parties that read financial statements with information that will help them make decisions or draw conclusions about an entity. In order to address the needs of as many parties as reasonably possible, the 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. They 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 category and is prepared on a 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 the District's single program. The statement begins with a section that identifies the costs of the District's air pollution control program activities followed by a section that identifies the revenues that are specifically related to this program. The difference between the expenses and the revenues represents the net program cost (or revenue) of the District's air pollution control program activities. This determines the amount, if any, drawn from general revenues to finance the program activities.

The District's government-wide financial statements are presented on pages 8 and 9.

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. The District's fund financial statements consist only of the General Fund since the District does not maintain any other governmental funds, proprietary funds or fiduciary funds.

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

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

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

The focus of the governmental 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 governmental fund statements and the government-wide statements. The reconciliation between the total fund balance and net assets can be found on page 11.

The reconciliation of the net change in fund balance for the General Fund to the change in net assets can be found on page 13.

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 14 to 22 of this report.

Required and Other Supplementary Information - In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning a budgetary comparison schedule for the General Fund on page 23.

C. Government-wide and Individual Fund Financial Analysis

Our analyses focus on the net assets and changes in net assets of the District's governmental activities (the District has no business-type activities).

The following schedule is a condensed Statement of Net Assets as of June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Current and Other Assets	\$ 21,029,081	\$ 21,576,083
Capital Assets	<u>1,340,927</u>	<u>1,311,823</u>
Total Assets	<u>\$ 22,370,008</u>	<u>\$ 22,887,906</u>
Long-Term Liabilities	\$ 2,664,746	\$ 3,017,470
Other Liabilities	<u>1,314,824</u>	<u>3,883,636</u>
Total Liabilities	<u>\$ 3,979,570</u>	<u>\$ 6,901,106</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ (1,465,052)	\$ (1,748,269)
Restricted	9,978,419	8,019,355
Unrestricted	<u>9,877,071</u>	<u>9,715,714</u>
Total Net Assets	<u>\$ 18,390,438</u>	<u>\$ 15,986,800</u>

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. At the close of the most recent fiscal year, the District's assets exceeded liabilities by \$18,390,438.

Approximately 90% of the District's current and other assets consist of cash and investments.

Debt attributed to the acquisition, construction or improvement of the District's capital assets exceeded the carrying value of capital assets by approximately \$1.465 million at June 30, 2009. As such, this amount is reported as a negative component of net assets.

Approximately \$9.978 million (54% of total net assets) are restricted for grants, debt service and other purposes.

The following schedule is a condensed Statement of Activities for the fiscal years ended June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Revenues:		
Program Revenues:		
Fees, fines and charges for services	\$ 4,802,583	\$ 4,370,017
Operating grants	6,918,026	5,525,517
Grant funds returned to California Air Resources Board	(68,208)	(155,790)
General Revenues:		
Interest	218,874	747,893
Net decrease in fair value of investments	(606,838)	-
Other Revenues	<u>123,754</u>	<u>82,512</u>
Total Revenues	<u>11,388,191</u>	<u>10,570,149</u>
Expenses:		
Personnel	4,428,293	4,269,514
Grants	2,944,920	4,215,543
Depreciation	277,608	247,544
Other	<u>1,333,732</u>	<u>1,460,096</u>
Total Expenses	<u>8,984,553</u>	<u>10,192,697</u>
Increase in Net Assets	<u>\$ 2,403,638</u>	<u>\$ 377,452</u>

Revenues from fees, fines and charges for services totaled approximately \$4.803 million, representing an increase of approximately \$433 thousand or about 9.9% over the prior year. Fee rates in FY 2008-09 were increased by 3.8%, consistent with the change in the San Francisco-Oakland-San Jose Consumer Price Index (CPI) for the year ending December, 2007. This resulted in an increase in major source revenue of \$68 thousand. New permit fees increased approximately \$133 thousand, general renewals increased \$32 thousand and variances (Excess Emissions Fees) increased \$33 thousand. Civil penalties were up representing an increase of \$119 thousand from last year due to State Enhanced Vapor Recovery Program missed deadlines. Miscellaneous income increased approximately \$49 thousand. \$33 thousand of this is reimbursements from the Department of Toxic Substances Control (DTSC) for the District's monitoring of vegetation burning at the former Fort Ord with the balance from sale of surplus equipment and engine inspection fees passed on from the State of California. All other fees and revenues remained fairly constant.

Revenues from operating grants totaled approximately \$6.918 million, representing an increase of approximately \$1.393 million or 25 % above the prior year. The majority of this change was attributable to a School Bus grant of \$1.797 million offset by decreases in DMV fees and the Moyer grant from FY 07-08. A separate line item in revenue reflects a return of \$68 thousand in School Bus funds to the Air Resources Board consisting primarily of interest earned on funds originally received in 2001 and not completely expended by June 30, 2009.

Interest revenue totaled approximately \$219 thousand, representing a decrease of approximately \$529 thousand or 71% below the prior year. The decrease in interest revenue was primarily the result of declining interest rates and non-receipt of Moyer funds prior to June 30, 2009.

As a result of the downturn in financial markets, certain investments held by the common investment pool of the County experienced significant declines in fair value. The District's allocated share of such decreases in fair value of investments was approximately \$607 thousand.

Personnel expenses totaled approximately \$4.428 million, representing an increase of approximately \$159 thousand or 4 % over the prior year. The increase was primarily attributable to the continuing upward trend in retirement and health insurance costs.

Grant expenses totaled approximately \$2.945 million, representing a decrease of approximately \$1.271 million or 30% as compared with the prior year. Grant expenses are recorded in the year the grantee incurs the expenditure and the District receives notification of such expenditure on a reimbursement claim form. The primary decrease in activity was in the DMV grants. Other governmental entities holding DMV fee funded grants completed fewer projects than in prior years. Extension requests continue to be granted when entities are unable to begin their projects due to unavailability of matching funds. This issue contributes to the relatively small amount of grant expenses in comparison to the reserved fund balances for grants.

Other expenses were comparable to the prior year except for professional and special services which decreased \$109 thousand, primarily related to non-recurring contracted services in the prior year.

D. Budgetary Highlights

The FY 2008-09 amended budget compared to the adopted budget reflects an increase in budgeted expenditures of \$5.368 million. The changes to the budgeted expenditures can be primarily attributed to carryover of grants that was unknown at the time the budget was developed.

Funding in excess of budget was received in Fiscal Year 2008 -09 from the following sources:

Fines and Penalties - \$134 thousand primarily due to penalties for non-compliance with State deadlines on Enhanced Vapor Recovery (EVR).

DMV Fees - \$98 thousand from the AB2766 and AB923 funds which both come from vehicle registrations.

Fees and Permits - \$366 thousand, primarily from Permit Issuances, Annual Renewal Fees and Engine Registrations which are difficult to budget accurately.

The net decrease in fair value of investments of \$607 thousand, pertaining to investment losses of the common investment pool of the County, was unexpected and, as such, not budgeted.

Expenditures of \$5.308 million in carryover of grants not yet completed were added to the final General Fund budget.

Significant positive budget variances in grants expenditures are primarily a result of timing. Grant expenditures are recorded in the year the grantee incurs the expenditure and the District receives notification of such expenditure on a reimbursement claim form. However, the District budgets grant expenditures based on the maximum amount to be reimbursed to grantees for all outstanding grant commitments.

The District budgets \$100 thousand for contingencies each year and did not have any non-budgeted contingencies in Fiscal Year 2008-09.

E. Capital Assets and Debt Administration

Capital Assets

The book value of the District's investment in capital assets was \$1.34 million (net of accumulated depreciation of \$3.73 million) as of June 30, 2009. This investment in capital assets includes land, buildings, equipment for laboratory, air monitoring stations, computer and office, and District vehicles.

The increase in capital assets of \$29 thousand from the prior year is the net result of additions of \$316 thousand, in excess of depreciation of \$278 thousand and net book value of assets sold of \$9 thousand.

Additional information on the capital assets can be found in the "Notes to Financial Statements," pages 16 and 18.

Long-Term Debt

At the end of the current fiscal year, the District had a total long-term debt outstanding of \$2.806 million including a current portion of \$335 thousand. The long-term debt balance primarily represents the 1996 Refunding Certificates of Participation (Administration Building Project) issued by Monterey Bay Building Authority whereby the District is required to make debt service payments. This is in accordance with the Installment Purchase Agreement between the Authority and the District. Additional information on the Certificates of Participation can be found in the "Notes to Basic Financial Statements." Long-term debt decreased \$254 thousand from the prior year as a result of \$290 thousand of regularly scheduled payments and \$36 thousand of long-term debt issued in the current year for a capital lease.

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

The FY 2009-10 expenditure budget is another status-quo budget in terms of no drastic changes in District programs other than grants. Retirement system employer costs are still subject to stock market performance and aging employee population. The Public Employees' Retirement System is working to develop methodologies of "smoothing" employer rates to offset the large fluctuations resulting from the volatility of investment returns. While next year's rates will not jump, there will definitely be increases in subsequent years. There are no new fee increases as the CPI for December, 2008, was 0%. The State of California continues to struggle with budget issues so grant funds other than AB2766 and AB923 may not be available. The District will have some personnel turnover in the form of retirements and the Executive Director is working to streamline processes so there will likely be some salary and other expense savings in FY 2009-10.

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS

Cash and investments	\$ 18,400,992
Cash and investments held by fiscal agent	488,012
Receivables:	
Accounts	193,446
State	1,521,838
Interest	692
Loan	348,335
Other	60,854
Prepaid expenses	14,912
Capital assets:	
Land	271,707
Depreciable assets - net	<u>1,069,220</u>
Total assets	<u>22,370,008</u>

LIABILITIES

Accounts payable	490,502
Accrued liabilities	325,559
Compensated absences:	
Expected to be paid within one year	164,204
Expected to be paid after one year	193,326
Long-term debt:	
Due within one year	334,559
Due in more than one year	<u>2,471,420</u>
Total liabilities	<u>3,979,570</u>

FUND EQUITY

Investment in capital assets - net of related debt	(1,465,052)
Restricted for:	
Debt service	488,012
Other purposes	9,490,407
Unrestricted	<u>9,877,071</u>
TOTAL NET ASSETS	<u>\$ 18,390,438</u>

See notes to basic financial statements.

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

EXPENSES:

Public Safety – Air Pollution Control:	
Personnel	\$ 4,428,293
Administrative	823,410
Fees remitted to other governmental agencies	5,854
Grants	2,944,920
Operations	172,219
Occupancy	167,701
Depreciation	277,608
Interest	<u>164,548</u>
Total program expenses	<u>8,984,553</u>

PROGRAM REVENUES:

Fees, fines and charges for services	4,802,583
Operating grants	6,918,026
Grant funds returned to California Air Resources Board	<u>(68,208)</u>
Total program revenues	<u>11,652,401</u>

NET PROGRAM REVENUE 2,667,848

GENERAL REVENUES:

Interest	218,874
Net decrease in fair value of investments	(606,838)
Miscellaneous	<u>123,754</u>
Total general revenues	<u>(264,210)</u>

INCREASE IN NET ASSETS 2,403,638

NET ASSETS:

BEGINNING OF YEAR	<u>15,986,800</u>
END OF YEAR	<u>\$ 18,390,438</u>

See notes to basic financial statements.

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

BALANCE SHEET – GENERAL FUND
JUNE 30, 2009

ASSETS

Cash and investments	\$ 18,400,992
Cash and investments with fiscal agent	488,012
Receivables:	
Accounts	193,446
State	1,521,838
Interest	692
Loan	348,335
Other	60,854
Prepaid expenditures	<u>14,912</u>
Total	<u>\$ 21,029,081</u>

LIABILITIES AND FUND BALANCE

LIABILITIES:	
Accounts payable	\$ 490,502
Accrued liabilities	312,651
Compensated absences	<u>164,204</u>
Total liabilities	<u>967,357</u>
FUND BALANCE:	
Reserved	9,978,419
Unreserved	<u>10,083,305</u>
Total fund balance	<u>20,061,724</u>
Total	<u>\$ 21,029,081</u>

See notes to basic financial statements.

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GENERAL FUND TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total fund balance reported on the Balance Sheet - General Fund \$ 20,061,724

Amounts reported in the Statement of Net Assets are different
from those reported in the General Fund above
because of the following:

Capital Assets

Capital assets used in governmental activities are not financial
resources and therefore are not reported in Governmental Funds 1,340,927

Long-term Liabilities

The liabilities below are not due and payable in the current
period and therefore are not reported in Governmental Funds:

Long-term debt (2,805,979)
Accrued interest payable on long-term debt (12,908)
Non-current portion of compensated absences (193,326)

NET ASSETS \$ 18,390,438

See notes to basic financial statements.

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUNDS
YEAR ENDED JUNE 30, 2009**

REVENUES:	
Fees and permits	\$ 4,612,889
Intergovernmental:	
Department of Motor Vehicles fees	3,598,623
Environmental Protection Agency	324,207
California Air Resources Board	2,822,021
Other governmental agencies	173,175
Grant funds returned to California Air Resources Board	(68,208)
Interest	218,874
Net decrease in fair value of investments	(606,838)
Fines and penalties	189,694
Miscellaneous	<u>132,572</u>
Total revenues	<u>11,397,009</u>
EXPENDITURES:	
Current:	
Personnel	4,482,505
Administrative	823,410
Fees remitted to other governmental agencies	5,854
Grants	2,944,920
Operations	172,219
Occupancy	167,701
Capital outlay	315,530
Debt service:	
Principal	290,161
Interest	<u>165,808</u>
Total expenditures	<u>9,368,108</u>
EXCESS OF REVENUES OVER EXPENDITURES	2,028,901
OTHER FINANCING SOURCES (USES) -	
Proceeds from capital lease	<u>36,048</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	2,064,949
FUND BALANCE:	
BEGINNING OF YEAR	<u>17,996,775</u>
END OF YEAR	<u>\$ 20,061,724</u>

See notes to basic financial statements.

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GENERAL FUND TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

Net change in fund balance – General Fund \$ 2,064,949

Amounts reported in the Statement of Activities are different
because of the following:

Capital Assets Transactions

Governmental Funds report capital outlays as expenditures.

However, in the Statement of Activities the cost of those assets
is allocated over their estimated useful lives and reported as
depreciation expense. This is the amount by which capital
outlays (\$315,530) exceed depreciation expense (\$277,608)
and net capital asset disposals (\$8,818) in the current period.

29,104

Long-term debt proceeds and payments

Long-term debt proceeds provide current financial resources for
Governmental Funds, but issuing debt increases long-term liabilities
in the Statement of Net Assets. Repayment of long-term debt
principal is an expenditure in Governmental Funds, but the
repayment reduces long-term liabilities in the Statement of Net
Assets. This is the amount by which repayments (\$290,161)
exceeded proceeds (\$36,048).

254,113

Accrual of non-current items

The amounts below included in the Statement of Activities do not
provide (require) the use of current financial resources and
therefore are not reported as revenues or expenditures in
Governmental Funds (net change):

Accrued interest payable on long-term debt

1,260

Non-current portion of compensated absences

54,212

INCREASE IN NET ASSETS

\$ 2,403,638

See notes to basic financial statements.

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The basic financial statements of the **Monterey Bay Unified Air Pollution Control District** (the "District") include the financial activities of the District and the Monterey Bay Building Authority (the "Authority"). The Authority is governed by a board appointed by the District's board. Although it is legally separate from the District, the Authority is reported as if it were part of the primary government because its sole purpose is to finance the District's public building.

The District was created in 1974, by a unified district agreement between the Counties of Monterey, Santa Cruz and San Benito. The District shares responsibility with the California Air Resources Board for ensuring that all state and federal air quality standards are achieved and maintained within the North Central Coast Air Basin.

Government-Wide Financial Statements - The District's government-wide financial statements (Statement of Net Assets and a Statement of Activities) include all activities of the District. These financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets, including capital assets and long-term liabilities are included in the accompanying statement of net assets. The government-wide financial statements focus more on the sustainability of the District as an entity and the change in its aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Assets reports all financial and capital resources of the District. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: (1) invested in capital assets, net of related debt, (2) restricted and (3) unrestricted. Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation less outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by creditors, grantors, contributors or laws or regulations of other governments. All assets not otherwise classified as "invested in capital assets, net of related debt" or "restricted" are shown as unrestricted. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets first.

The government-wide Statement of Activities presents changes in net assets and demonstrates the degree to which the direct expenses of the District are offset by program revenues. Program revenues include (1) charges for services and (2) grants and contributions that are restricted to meeting the operational or capital requirements of the District's air pollution control program. Taxes and other items not properly included among program revenues are reported as general revenues. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which the liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements- The District's governmental fund financial statements (Balance Sheet and Statement of Revenues, Expenditures and Fund Balances) report activities of the District's General Fund, its sole major governmental fund.

For the year ended June 30, 2009, the District had no nonmajor funds, as defined by Governmental Accounting Standards Board Statement No. 34.

The governmental fund financial statements are presented on "current financial resources" measurement focus and the modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications include the following:

- Revenues are recorded in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (received generally within 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District, are fees, fines and charges for services, operating grants, and interest.
- Expenditures are generally recorded when the related fund liability is incurred, except that interest and principal on general long-term debt are recognized when due.
- Disbursements for the purchase of capital assets are reported as expenditures. Proceeds from the issuance of long-term debt are reported as other financing sources.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available, spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is considered most appropriate to: (1) demonstrate legal compliance, (2) demonstrate the sources and uses of liquid resources, and (3) demonstrate how the District's actual revenues and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the government-wide financial statements, reconciliations are provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the governmental fund financial statements into the government-wide financial statements.

Budgets and Budgetary Accounting - The District adopts an annual operating budget for all governmental fund types prepared on a modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP basis). By State law, the District's governing board must approve a tentative budget no later than July 1st and adopt a final budget no later than September 15th of each year. A hearing must be conducted to hear public comments prior to adoption. In fiscal year 2009, the District's governing board satisfied these requirements.

The Air Pollution Control Officer is authorized to transfer budget appropriations between objects in accordance with District policy. Each change shall be reported to the Board of Directors. Transfers between funds must be approved by the Board of Directors.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated revenues and expenditures. The original and final budgets are presented in the required supplementary information - budgetary comparison schedules.

Grants awarded are recorded as expenditures in the year the grantee incurs the expenditure and the District receives notification of such expenditure on a reimbursement claim form. In the governmental fund balance sheet, the District reserves a portion of fund balance for grants awarded for which reimbursement claim forms have not been submitted to the District.

Cash and Investments – The District deposits funds and participates in the common investment pool of the County of Monterey and the District accounts for these investments under Governmental Accounting Standards Board (“GASB”) Statement 31 (“GASB 31”), *Accounting for Certain Investments and for External Investment Pools*, which requires the District to report investments in common investment pools of the County at fair value and changes in the fair value of such investments as revenue or expense in the statement of activities and the statement of revenues, expenditures and changes in fund balance. Accordingly, \$18,389,490, which represents cash and investments in the County Treasury is stated at fair value.

During fiscal 2009 the financial markets experienced a significant downturn as a result of a global economic crisis and certain investments held by the common investment pool of the County experienced significant declines in fair value. The District’s allocated share of such decreases in fair value of investments totaled \$606,838 and has been recognized in the statement of activities and the statement of revenues, expenditures and changes in fund balance. The County has filed certain lawsuits in an attempt to recover these investment losses, however, the ultimate outcome of these lawsuits is presently not determinable.

Capital assets are recorded at historical cost and are reported in the government-wide financial statements net of accumulated depreciation. Assets are capitalized when the cost of individual items exceed \$5,000. Amounts paid to acquire long-lived assets are recorded as capital outlay expenditures of the General Fund and as capital assets in the government-wide financial statements to the extent the District’s capitalization threshold is met. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	15-20
Office furniture and equipment	3-5
Shop, monitoring and lab equipment	5-7
Vehicles	5

Compensated Absences - Unused annual leave may be accumulated up to 600 hours for management and unused vacation leave may be accumulated up to 260 hours for other employees and is paid at the time of termination from District employment. Unused sick leave may be accumulated and is only paid to employees upon termination by death or retirement from the District through the Public Employees' Retirement System. Eligible employees are paid an amount equal to the sick leave accrued, up to 1,500 hours, at thirty percent of their hourly rate.

The current and long-term portions of the District’s compensated absences liability are estimated annually. The portion of the liability for compensated absences expected to be paid within the next year is recorded in the General Fund. Both the current and long-term portions of the liability are recorded in the government-wide financial statements.

Changes in the compensated absences liability for the year ended June 30, 2009 were as follows:

	<u>Balance July 1, 2008</u>	<u>Increase (Decrease)</u>	<u>Balance June 30, 2009</u>
Amount expected to be paid:			
Within one year	\$ 164,486	\$ (282)	\$ 164,204
After one year	<u>247,538</u>	<u>(54,212)</u>	<u>193,326</u>
Total	<u>\$ 412,024</u>	<u>\$ (54,494)</u>	<u>\$ 357,530</u>

Long-Term Debt - The current and long-term portions of long term debt and any related accrued interest payable are reported as liabilities in the government-wide financial statements. The governmental fund financial statements do not include long-term debt in accordance with the "current financial resources" measurement focus and the modified accrual basis of accounting.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Subsequent events have been evaluated through December 3, 2009 (date financial statements were available for issuance).

2. CASH AND INVESTMENTS

The District maintains cash deposits with the County of Monterey treasurer and with a fiscal agent.

Cash and Investments in County Treasury - Cash deposited with the County treasurer of \$18,389,490 at June 30, 2009, is part of the common investment pool of the County. California Statutes and the County's Investment Policy authorize investments in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, medium term notes, commercial paper, bankers' acceptances, repurchase agreements and the State Treasurer's Investment Pool. Refer to the County's financial statements for categorization of pooled cash and investments as to risk.

Bank Deposits - At June 30, 2009, the carrying amount of the District's bank deposits was \$11,502. The amount was covered by federal depository insurance.

Cash and Investments with Fiscal Agent are invested in mutual funds with a carrying value and market value of \$488,012 and are held separately from the District's funds.

3. LOAN RECEIVABLE

In April 2008 the District entered into a loan agreement with Energy Alternative Solutions to help finance the construction of a biodiesel plant/module in Monterey County. The agreement provides for a \$348,335 loan with a 15 year term, bearing interest at 3%. Interest is payable annually and the entire principal balance is due at maturity, in 2023.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets not being depreciated -				
Land	\$ <u>271,707</u>			\$ <u>271,707</u>
Capital assets being depreciated:				
Buildings and improvements	3,511,023			3,511,023
Office furniture and equipment	193,063	\$ 36,048		229,111
Shop, monitoring and lab equipment	479,124	82,871	\$ (43,294)	518,701
Vehicles	<u>419,774</u>	<u>196,611</u>	<u>(72,683)</u>	<u>543,702</u>
Total capital assets being depreciated	<u>4,602,984</u>	<u>315,530</u>	<u>(115,977)</u>	<u>4,802,537</u>
Less accumulated depreciation:				
Buildings and improvements	(2,739,820)	(165,118)	-	(2,904,938)
Office furniture and equipment	(143,848)	(24,076)	-	(167,924)
Shop, monitoring and lab equipment	(361,742)	(32,360)	38,109	(355,993)
Vehicles	<u>(317,458)</u>	<u>(56,054)</u>	<u>69,050</u>	<u>(304,462)</u>
Total accumulated depreciation	<u>(3,562,868)</u>	<u>(277,608)</u>	<u>107,159</u>	<u>(3,733,317)</u>
Total capital assets being depreciated - net	<u>1,040,116</u>	<u>37,922</u>	<u>(8,818)</u>	<u>1,069,220</u>
Total capital assets - net	<u>\$ 1,311,823</u>	<u>\$ 37,922</u>	<u>\$ (8,818)</u>	<u>\$ 1,340,927</u>

5. LONG-TERM DEBT

The District's long-term debt as of June 30, 2009 consists of the following:

	<u>Interest</u> <u>Rates</u>	<u>Maturity</u> <u>Dates</u>	<u>Outstanding</u> <u>June 30, 2009</u>
1996 Refunding Certificates of Participation (Administration Building Project)	5.5-5.7%	2010-2016	\$ 2,740,000
Capital lease obligations	7.49-8.8%	2010-2012	<u>65,979</u>
Total			2,805,979
Current portion			<u>(334,559)</u>
Long-term portion			<u>\$ 2,471,420</u>

Debt service payments are to be made from General Fund revenues.

The following is a summary of long-term debt transactions for the year ended June 30, 2009:

	1996 Certificates of <u>Participation</u>	Capital Lease <u>Obligations</u>
Balance, July 1, 2008	\$ 3,015,000	\$ 45,092
Borrowings	-	36,048
Repayments	<u>(275,000)</u>	<u>(15,161)</u>
Balance, June 30, 2009	<u>\$ 2,740,000</u>	<u>\$ 65,979</u>

As of June 30, 2009, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	..Certificates of Participation..		..Capital Lease Obligations..		Total Debt Service Requirements
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2010	\$ 300,000	\$ 146,645	\$ 34,559	\$ 5,251	\$ 486,455
2011	330,000	129,155	25,916	1,414	486,485
2012	355,000	109,975	5,504	97	470,576
2013	385,000	89,063	-	-	474,063
2014	420,000	66,120	-	-	486,120
2015-2016	<u>950,000</u>	<u>55,291</u>	<u>-</u>	<u>-</u>	<u>1,005,291</u>
Total	<u>\$ 2,740,000</u>	<u>\$ 596,249</u>	<u>\$ 65,979</u>	<u>\$ 6,762</u>	<u>\$ 3,408,990</u>

In fiscal 1997 the District defeased the 1989 Certificates of Participation by creating a separate irrevocable trust fund. New debt was issued and the proceeds were used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the District's financial statements. As of June 30, 2009, the amount of defeased debt outstanding but removed from the District's long-term obligations amounted to \$2,605,000.

6. NET ASSETS AND FUND BALANCE

Government-Wide Financial Statements

Net assets are reported in the government-wide financial statements in the following categories:

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation less outstanding debt that is attributed to the acquisition, construction, or improvement of the assets. At June 30, 2009 the District had (\$1,465,052) reported in this category.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

Governmental Fund Financial Statements

Fund Balance consists of reserved and unreserved amounts. The term "reserved" is used to indicate that a portion of reported fund balance is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The remaining portion is "unreserved" fund balance and is legally available for use in the operations of the District.

The District has "reserved" fund balances in the General Fund for the following purposes:

Reserved for grants awarded to reflect outstanding contractual obligations for the unused portion of grants awarded, which are funded by Department of Motor Vehicles fees and are restricted for uses related to reducing air pollution from motor vehicles, pursuant to the California Clean Air Act of 1988.

Reserved for California Assembly Bill 923 grants to reflect funds restricted to projects eligible under the Carl Moyer program, new purchase, retrofit, repower or add-on of equipment for unregulated agricultural sources, and the purchase of school buses under the Lower-Emission School Bus Program.

Reserved for Lower-Emission School Bus Program to reflect funds restricted to the replacement of old buses and the retrofitting of existing buses with particulate filters, which reduce oxides of nitrogen and particulate matter emissions.

Reserved for cash and investments with fiscal agent to reflect assets held for the retirement of long-term debt.

Reserved for Moyer grants to reflect funds restricted to programs which reduce oxides of nitrogen and particulate matter emissions from diesel engines.

Reserved for Energy Crisis program to reflect funds restricted to the mitigation of the impact of diesel exhaust emissions resulting from operation of back-up generators during the 2001 California energy shortage.

Reserved for unavailable assets to reflect prepaid expenditures and a loan receivable which are not considered to be available, spendable resources.

A summary of the reservations of fund balance in the governmental fund financial statements at June 30, 2009 follows:

	<u>General Fund</u>
Reserved for:	
Grants awarded	\$ 3,836,288
AB 923 grants	2,855,666
Lower Emissions School Bus program	1,746,570
Cash and investments with fiscal agent	488,012
Moyer grants	624,041
Energy Crisis program	64,595
Unavailable assets	<u>363,247</u>
Total	<u>\$ 9,978,419</u>

7. DEFERRED COMPENSATION PLAN

All permanent employees of the District are eligible to participate in the District sponsored deferred compensation plan (the "Plan"). The Plan provides for the deferral of a portion of the employees' compensation until retirement, termination, or certain other covered events. The funds are invested by the District, through administrators under the direction of the employee participants, in various types of mutual funds. The assets of the Plan are held in a trust for the exclusive benefit of the participants. As such, the assets of the Plan are not recorded on the basic financial statements of the District. At June 30, 2009 the assets of the Plan totaled \$2,604,916.

8. EMPLOYEES' RETIREMENT PLAN

Plan Description – The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating entities within the State of California. The benefits for the public agencies are established by contract with CalPERS in accordance with the provisions of the Public Employees Retirement Law. CalPERS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for CalPERS. A copy of that report may be obtained by writing to CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 94229-2715.

Funding Policy – Employees are required to contribute 7% of covered salary to CalPERS. The District is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the fiscal year ended June 30, 2009 the employer contribution rate was 11.187%. The District, due to collective bargaining agreements, also has a legal obligation to pay the employees' contributions in addition to its own. Such employee contributions paid by the District totaled \$224,038 for the year ended June 30, 2009.

Annual Pension Cost – For the fiscal year ended June 30, 2009, the District's annual pension cost of \$358,045 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return, and (b) projected salary increases that vary by duration of service. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the District's assets was determined by using techniques that smooth the effects of the short-term volatility in the market value of investments over a three-year period.

Three-Year Trend Information:

<u>Fiscal Year End</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ 311,392	100%	-
June 30, 2008	348,272	100%	-
June 30, 2009	358,045	100%	-

Risk Pools – In October 2003, Assembly Bill 1974 was enacted, giving authority to CalPERS to implement pooling of small public agency plans. Effective with the June 30, 2003 actuarial valuation, CalPERS established mandatory risk pools for plans containing less than 100 active members as of the valuation date. At that point, the District’s plan became part of the “Miscellaneous 2% at 55 Risk Pool”. As such, the information contained in the following schedule reflects the funding progress of the pool rather than the plan on a stand-alone basis.

Required Supplementary Information – Schedule of Funding Progress.

Actuarial Valuation Date	Actuarial Accrued Liability (Entry Age Normal) (in Thousands)	Actuarial Value of Assets (in Thousands)	Unfunded Actuarial Accrued Liability (in Thousands)	Funded Status	Annual Covered Payroll (in Thousands)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
June 30, 2005	\$ 2,891,461	\$ 2,588,713	\$ 302,748	89.5%	\$ 755,047	40.1%
June 30, 2006	2,754,396	2,492,226	262,170	90.5%	699,898	37.5%
June 30, 2007	2,611,746	2,391,434	220,312	91.6%	665,523	33.1%

9. CONTINGENT LIABILITIES

The District participates in a number of state and federally assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including fiscal 2009 have not yet been conducted. Accordingly, the District’s compliance with applicable program requirements is yet to be established. The amount, if any, of expenditures which may be disallowed by the program agencies cannot be determined, although the District does not expect such amounts, if any, to be material.

The District is party to legal actions in the ordinary course of business. Although the ultimate outcome is not presently determinable, management believes that the resolution of such matters will not have a material adverse effect on the District’s financial position or results of its activities.

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2009

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES:				
Fees and permits	\$ 4,075,885	\$ 4,246,681	\$ 4,612,889	\$ 366,208
Intergovernmental:				
Department of Motor				
Vehicles fees	3,500,000	3,500,000	3,598,623	98,623
Environmental Protection				
Agency	348,383	348,383	324,207	(24,176)
California Air Resources Board	8,288,098	2,995,430	2,822,021	(173,409)
Other governmental agencies	173,175	173,175	173,175	-
Grant funds returned to California				
Air Resources Board	-	-	(68,208)	(68,208)
Interest	115,000	205,452	218,874	13,422
Net decrease in fair value				
of investments	-	-	(606,838)	(606,838)
Fines and penalties	56,000	56,000	189,694	133,694
Miscellaneous	75,500	130,403	132,572	2,169
Total revenues	<u>16,632,041</u>	<u>11,655,524</u>	<u>11,397,009</u>	<u>(258,515)</u>
EXPENDITURES:				
Current:				
Personnel	4,560,305	4,541,305	4,482,505	58,800
Administrative	927,747	950,247	823,410	126,837
Fees remitted to other				
governmental agencies	6,600	6,600	5,854	746
Grants	11,604,838	16,912,505	2,944,920	13,967,585
Operations	221,401	235,501	172,219	63,282
Occupancy	203,598	191,098	167,701	23,397
Capital outlay	259,000	313,900	315,530	(1,630)
Debt service	437,458	437,458	455,969	(18,511)
Contingencies	100,000	100,000	-	100,000
Total expenditures	<u>18,320,947</u>	<u>23,688,614</u>	<u>9,368,108</u>	<u>14,320,506</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,688,906)	(12,033,090)	2,028,901	14,061,991
OTHER FINANCING SOURCES (USES) -				
Proceeds from capital lease	-	-	36,048	36,048
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ (1,688,906)</u>	<u>\$(12,033,090)</u>	<u>\$ 2,064,949</u>	<u>\$ 14,098,039</u>