MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2010

AND INDEPENDENT AUDITORS' REPORT

**MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT**

Table of Contents

HAYASHI
& WAYLAND
ACCOUNTING & CONSULTING, LLP

INDEPENDENT AUDITORS' REPORT

Board of Directors
Monterey Bay Unified Air Pollution Control District
Monterey, California

We have audited the accompanying financial statements of the governmental activities and major fund of the ***Monterey Bay Unified Air Pollution Control District*** (the District) as of and for the year ended June 30, 2010 which, collectively comprise the District's basic financial statements 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 in accordance with the *Minimum Audit Requirements and Reporting Guidelines for California Special Districts* as required by the State Controller's office. 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 District as of June 30, 2010 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 8, the Schedule of Funding Progress of Other Post Employment Benefits on page 25 and the Budgetary Comparison Schedule on page 26 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.

December 15, 2010

Hayashi & Wayland

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MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Our discussion and analysis of the Monterey Bay Unified Air Pollution Control District's (the District) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2010. This report is to be read in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $18.6 million (net assets). Of this amount, $9.9 million (restricted net assets) are legally restricted for debt service and other purposes.

- The District's total net assets increased by $254,000 over the prior year.

- As of the close of the fiscal year, the District's governmental funds reported combined ending fund balances of $20.4 million, an increase of $354,000 in comparison to the prior year. This increase includes a prior period adjustment of $164,000.

- Out of the total General Fund balance of $20.4 million at the end of the fiscal year, $10.6 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 $9.8 million is reserved for grants and unavailable assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's financial statements. The District's financial statements are comprised of three components: 1) Government-wide financial statements; 2) Fund Financial Statements; and 3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. 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 Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the District's revenue base, to assess the overall health or financial condition of the District.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental-wide financial statements include all the governmental activities of the District. The governmental activities of the District include administration, engineering/compliance, air monitoring and planning. The District does not operate any business-type activities.

The District's government-wide financial statements are presented on pages 9 and 10.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the most significant funds, not the District as a whole. The District has one fund, the General Fund, which is a governmental fund type. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of the governmental funds is narrower than that of the government–wide financial statements, it useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate the comparison between governmental funds and government-wide statements. The fund financial statements can be found on pages 11 to 13 of this report.

Notes to the Financial Statements – The notes 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 financial statements can be found on pages 14 to 24 of this report.

GOVERNMENT–WIDE FINANCIAL ANALYSIS

Summary of Net Assets (Rounded to the nearest $1,000)
For the Year Ended June 30

	2010	2009	Change
Current and other assets	$ 21,363,000	$ 21,029,000	$ 334,000
Capital assets	1,086,000	1,341,000	(255,000)
Total assets	$ 22,449,000	$ 22,370,000	$ 79,000
Current and other liabilities	$ 1,414,000	$ 1,509,000	$ (95,000)
Long-term liabilities	2,391,000	2,471,000	(80,000)
Total liabilities	$ 3,805,000	$ 3,980,000	$ (175,000)
Invested in capital assets, net of related debt	$ (1,354,000)	$ (1,465,000)	$ 111,000
Restricted net assets	9,020,000	9,978,000	(958,000)
Unrestricted	10,978,000	9,877,000	1,101,000
Total net assets	$ 18,644,000	$ 18,390,000	$ 254,000

Net assets may serve over time as a useful indicator of the District's financial position. At the close of fiscal year ended June 30, 2010, the District's assets exceeded liabilities by $18.6 million.

Approximately 93% 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 the capital assets by approximately $1.4 million at June 30, 2010. As such, this amount is reported as a negative component of net assets. As of August 31, 2010, the debt associated with the District's Certificates of Participation was paid in full.

Approximately $9.0 million (48% of total net assets) are restricted for grants, debt service and other purposes.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Assets
For the year Ended June 30 (Rounded to the nearest $1,000)

	2010	2009	Change
Revenues:			
Program Revenues:			
Charges for services	$ 4,038,000	$ 4,804,000	$ (766,000)
Operating grants and contributions	2,727,000	2,680,000	47,000
General Revenues:			
DMV surcharges	2,359,000	2,399,000	(40,000)
AB 923	1,179,000	1,200,000	(21,000)
Grants	256,000	216,000	40,000
City/County contributions	174,000	173,000	1,000
Investment income	336,000	219,000	117,000
Net decrease in fair value of investments	–	(607,000)	607,000
Loss on disposal of asset	(42,000)	(9,000)	(33,000)
Other	311,000	313,000	(2,000)
Total Revenues	11,338,000	11,388,000	(50,000)
Expenses:			
Administration	1,639,000	1,929,000	290,000
Engineering/Compliance	2,667,000	2,479,000	(188,000)
Air monitoring	727,000	769,000	42,000
Planning and grants	5,912,000	3,642,000	(2,270,000)
Interest on long-term debt	139,000	165,000	26,000
Total Expenses	11,084,000	8,984,000	(2,100,000)
Increase in Net Assets	254,000	2,404,000	(2,150,000)
Net assets, beginning of year	18,390,000	15,986,000	2,404,000
Net assets, end of year	$ 18,644,000	$ 18,390,000	$ 254,000

Revenues from fees, fines and charges for services totaled approximately $4.0 million, representing a decrease of approximately $766,000 (about 16%) from the prior year. This decrease was primarily due to a loss of fees from a major source, Cemex, that closed its cement plant in 2009.

District fees have historically been increased annually in alignment with the San Francisco-Oakland-San Jose Consumer Price Index (CPI). The December 2008 CPI was 0%. Consequently, no increase was made to the District's fee schedule for fiscal year 2009–10.

Civil penalties were up by approximately 17% representing an increase of $19,000 from last year due to source violations associated with the State Enhanced Vapor Recovery Program. Miscellaneous income decreased approximately 5% from the previous year. The majority of miscellaneous income is from the Department of Toxic Substances Control (DTSC) for the District's assistance with smoke management efforts at the former Fort Ord.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

Revenues from State DMV surcharges (including AB 923 funds) were down almost 2% from the previous fiscal year, or about $61,000 in total. EPA grant funds were down about 10% from the previous year. However, the District was awarded an additional $45,000 of EPA 105 grant monies for the period ending September 30, 2010, which will be recorded in the 2010–11 fiscal year.

Investment revenues totaled approximately $336,000, representing an increase of $117,000 as compared to the prior year. The revenues included $114,000 of loss recovery from Monterey County for a portion of the investment losses incurred in fiscal year 2008–09.

Expenditures for the year totaled $11.1 million. Administration and Air Monitoring expenses were both down as compared to the prior year due to savings in personnel expenses and professional services. Expenses for Engineering and Compliance were higher by about $188,000 primarily due to higher personnel costs, including retirement, workers compensation insurance, and health premiums.

Planning and grant expenses totaled approximately $5.9 million, representing an increase of approximately $2.3 million or 62% higher as compared with the prior year. The primary increase in activity was in the AB2766 and Lower Emission School Bus (LESBP) grant programs. AB2766 grant reimbursements were approximately $700,000 higher than the prior year. LESBP grant reimbursements were up by about $2.3 million. Moyer grants were lower in FY 2009–10 by about $689,000.

Overall, net assets increased by $254,000 bringing net assets to $18.6 million as June 30, 2010.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The book value of the District's investment in capital assets was $1.1 million (net of accumulated depreciation of $3.9 million). This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, computer and office equipment, and vehicles.

In FY 2009–10, there was a $255,000 decrease in capital assets consisting of:

Capital purchases	$	93,000
Assets retired		(169,000)
Depreciation, net of retired assets		(179,000)
Total	$	(255,000)

Additional information regarding the capital assets can be found in Note 4 in the "Notes to Financial Statements", page 18.

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

The focus of the District's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements.

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS (Continued)

The General Fund balance at June 30, 2010 was $20.4 million, an increase of approximately $190,000 over the prior year. The increase was primarily due to the following factors:

- Additional Lower Emissions School Bus Program (LESBP) grant funds received from the State totaling $1.9 million. Grant expenditures for this program were $856,000. The remainder of the grant proceeds will be paid to grantees in FY 2010–11.

- Increases to other grant program fund balances (such as AB2766 and Moyer grants programs) due to grant projects not completed by the end of the fiscal period. These grant reimbursements are recorded once the projects are completed and the grantee submits a reimbursement request.

- Investment loss recoveries of $114,000 from Monterey County for losses incurred in FY 2008–09.

- Capital assets expenditures were about $52,000 less than budgeted.

BUDGETARY HIGHLIGHTS

Revenues

The actual revenue total of $11.3 million compares to a final budget of $11.5. The line items that contributed significantly to the $127,000 negative variance are "Licenses & Permits" and "Grants" revenues. Licenses and Permits were affected by the closure of the Cemex cement plan in Davenport, Santa Cruz County. Grant revenues variances were due to Moyer Grant revenues that were lower than budgeted by about $114,000. The remaining Moyer grant monies will be received in FY 2010–11.

Expenditures

Actual expenditures for the year totaled $11.1 million as compared to a budget of $17.6 million. The primary reason for the significant budget variance is a timing difference for grant expenditures. The grants expenditures budget is based on the maximum amount to be reimbursed for all outstanding grant commitments. For example, $5.4 million was budgeted for AB2766 expenditures for new grants and unspent grants carried forward from previous years. Out of this total, actual payments to grantees totaled $1.5 million, resulting in a budget variance of $3.9 million. Similar timing issues existed for the Moyer and LESBP grant programs.

There were also positive budget variances for administrative and operational expenses. In total, these expenditures were about $609,000 under budget, including a $150,000 contingency that was not used during the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The FY 2010–11 new budget was prepared with the assumption that revenues would be reduced by approximately $940,000 due to the closure of the Cemex cement manufacturing plant in Davenport, Santa Cruz County. To help offset some of the loss in fees, the District's fees were adjusted by 2.6% in line with the 2009 San Francisco-Oakland-San Jose consumer price index (CPI).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (Continued)

The FY 2010–11 budget also reflects the District management personnel reorganization. Three division manager positions were eliminated and a Deputy Air Pollution Control Officer position was added. This reorganization is projected to reduce personnel costs significantly in future years.

As with other air districts across the state, the District faces fiscal challenges such as:

- Potential difficulties in implementing future fee increases as a result of the recently adopted Proposition 26, which recategorizes many fees as taxes that require two-thirds voter approval.
- Expected increases to CalPERS retirement costs as employer rates are adjusted upwards to offset losses from investments of pension funds.
- Increases to health care premiums.
- Potential reductions in State grant funds other than AB2766 and AB923 DMV fees if the State continues to experience budget deficits.

To prepare for these fiscal challenges, the District will continue its efforts in streamlining and efficiency improvements. In the meantime, the District maintains a strong financial position and has adequate reserves to help offset future potential revenue losses and/or increased expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Monterey Bay Unified Air Pollution Control District, Attn: Administrative Services, 24580 Silver Cloud Court, Monterey, California 93940.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

ASSETS:	
Cash and investments	$ 19,477,540
Cash and investments held with fiscal agent	488,239
Receivables, net	358,978
Receivables from other governments	674,220
Prepaid expenses	15,958
Loan receivable	348,335
Capital assets, net:	
Nondepreciable	271,707
Depreciable	814,142
Total assets	22,449,119
LIABILITIES:	
Accounts payable	652,959
Accrued liabilities	242,559
Noncurrent liabilities:	
Due within one year	517,754
Due in more than one year	2,391,232
Total liabilities	3,804,504
NET ASSETS:	
Invested in capital assets - net of related debt	(1,354,151)
Restricted net assets	9,020,249
Unrestricted	10,978,517
Total net assets	$ 18,644,615

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets
FUNCTIONS/PROGRAMS				
Governmental activities:				
Administration	$ 1,639,324	$ 2,043	$ –	$ (1,637,281)
Engineering/Compliance	2,667,200	3,888,260	–	1,221,060
Air monitoring	727,107	148,177	32,300	(546,630)
Planning and grants	5,911,973	–	2,694,941	(3,217,032)
Interest on long-term debt	138,989	–	–	(138,989)
Total governmental activities	$ 11,084,593	$ 4,038,480	$ 2,727,241	$ (4,318,872)
General revenues:				
DMV surcharges				2,358,824
AB 923				1,179,413
Grants				255,508
City/County contributions				174,483
Investment income				335,613
Loss on capital asset				(42,313)
Other				311,521
Total general revenues				4,573,049
CHANGE IN NET ASSETS				254,177
NET ASSETS, BEGINNING OF YEAR				18,390,438
NET ASSETS, END OF YEAR				$ 18,644,615

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
BALANCE SHEET – GENERAL FUND
JUNE 30, 2010

ASSETS	
Cash and investments	$ 19,477,540
Cash and investments held with fiscal agent	488,239
Receivables, net	358,978
Receivables from other governments	674,220
Prepaid expenses	15,958
Loan receivable	348,335
Total assets	$ 21,363,270
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	$ 652,959
Accrued liabilities	242,559
Deferred revenue	52,176
Total liabilities	947,694
Fund Balances:	
Reserved for:	
Noncurrent receivable	348,335
Restricted grants	9,020,249
COP payments	488,239
Unreserved	10,558,753
Total fund balances	20,415,576
Total liabilities and fund balances	$ 21,363,270

RECONCILIATION OF THE BALANCE SHEET – GENERAL FUND TO THE STATEMENT OF NET ASSETS:

Fund balance – General Fund	$ 20,415,576
Amounts reported in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	1,085,849
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds	52,176
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(2,908,986)
NET ASSETS	$ 18,644,615

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

REVENUES:	
DMV surcharges	$ 3,538,237
Grants	2,930,573
Licenses and permits	2,871,593
Fines and fees	991,830
Investment earnings	335,613
Other revenues	661,061
Total revenues	11,328,907
EXPENDITURES:	
Current:	
Administration	1,395,309
Engineering/Compliance	2,590,951
Air monitoring	707,579
Planning and grants	5,888,470
Debt service:	
Principal	334,559
Interest and other charges	151,897
Capital outlay	70,494
Total expenditures	11,139,259
NET CHANGE IN FUND BALANCE	189,648
FUND BALANCE, BEGINNING OF YEAR	20,061,724
FUND BALANCE ADJUSTMENT	164,204
FUND BALANCE AS RESTATED, BEGINNING OF YEAR	20,225,928
FUND BALANCE, END OF YEAR	$ 20,415,576

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

NET CHANGES IN FUND BALANCE	$ 189,648
Amounts reported in the Statement of Activities are different because:	
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. In the current period this amount is:	
Capital outlay	70,494
Current year depreciation	(283,259)
Loss on disposal of asset	(42,313)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	52,176
The issuance of long-term debt provides current financial resources for Governmental Funds, while the repayment of the principal long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any effect on net assets. In the current period these amounts are:	
Principal payments on long-term debt	334,559
Accrued interest	12,908
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported expenditures in Governmental Funds. In the current period these amounts are:	
Compensated absences	(3,581)
OPEB costs	(76,455)
INCREASE IN NET ASSETS	$ 254,177

See Notes to Basic Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The **Monterey Bay Unified Air Pollution Control District** (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.

Basis of Presentation and Accounting –

Government–Wide Financial Statements – The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the District.

The Statement of Net Assets presents the District's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

Separate fund based financial statements are provided for governmental funds. The District has no proprietary or fiduciary funds.

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the District's General Fund, its sole major governmental fund. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

Measurement Focus and Basis of Accounting – The government-wide financial statements are reported using the economic resources 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 related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if they are collected within 60 days of year end of the current fiscal 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 recognized only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Fees, fines, charges for services, operating grants, and interest are recognized under the susceptible to accrual concept. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the District; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The District's major governmental fund, the General Fund, accounts for the District's primary services, Administration, Engineering/Compliance, Air Monitoring and Planning and grants.

Cash and Investments – Pooled cash and investment accounts, which essentially operate as demand deposit accounts, are maintained by the Monterey County Treasurer's Office. Available cash balances are controlled and invested by the County Treasurer in pooled investment funds in order to provide safety, liquidity and high investment returns for all funds. Interest earnings from these funds are generally credited to the District's account on a quarterly basis. The investments are stated at fair value, which equates cost.

The Monterey County Treasurer's investment policy is in compliance with Section 53601 of the Government Code of the State of California, which permits investments in certain securities and participation in certain investment trading techniques or strategies.

Cash and investment held by fiscal agent represent reserve accounts for the certificates of participation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets – Property, facilities and equipment purchased or acquired is carried at historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
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. Compensated absences is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Deferred Revenue – In governmental funds deferred revenue arises when revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise, in governmental funds, when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to meeting eligibility requirements. In a subsequent period, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, revenue is recognized. As of June 30, 2010 deferred revenue of $52,176 represents grants that did not meet the available criteria.

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Restricted Net Assets – The District receives grant monies that must be used for specific purposes, at June 30, 2010 the amount of these funds was $9,020,249.

Fund Equity – In the governmental fund financial statements, reservations of fund balance represent amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

Use of Estimates – 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 amounts reported. Actual results could differ from those estimates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Restricted Resources – When both restricted and unrestricted resources are available for use, it is the Districts' policy to use restricted resources first, then unrestricted resources, as they are needed.

Subsequent Events – Subsequent events have been evaluated through December 15, 2010, which is the date the financial statements were available to be issued.

Effects of New Pronouncements – In June 2004, GASB issued Statement No. 45, *Accounting Reporting by Employees for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits or OPEB. The Statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. This Statement also establishes disclosure requirements for information about the plans in which an employer participates; the funding policy followed; the actuarial valuation process and assumptions; and for certain employers the extent to which the plan has been funded over time. The District implemented this Statement in fiscal year 2010. Refer to Note 8 for additional details.

NOTE 2. DEPOSITS AND INVESTMENTS

The District maintains cash deposits with the County of Monterey treasurer and several banking institutions.

Cash and Investments in County Treasury – Cash deposited with the County Treasurer in the amount of $19,452,954 at June 30, 2010 is part of the common investment pool of the county. It is the policy of the Treasurer-Tax Collector of Monterey County to invest public funds in a manner which provides for the safety of the funds on deposit, the cash flow demands, or liquidity needs of the treasury pool participants, and the highest possible yield after first considering the first two objectives of safety and liquidity. In addition, it is the Treasurer-Tax Collectors' policy to invest all funds in strict conformance with all state statutes governing the investment of public monies. Refer to the County's financial statements for categorization of pooled cash and investments as to risk.

Cash with Banking Institutions – At June 30, 2010, the carrying amount of the District's bank deposits was $24,086. The amount was fully covered by Federal Depository Insurance.

Cash with Fiscal Agent – At June 30, 2010 $488,239 is held with US Bank Trust in money market accounts restricted for the payments on the Certificates of Participation. These funds are fully covered by Federal Depository Insurance Corporation.

NOTE 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.

As of June 30, 2010, Energy Alternative Solutions is in default on the loan. The full amount is due and payable at the District's option.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance 6/30/09	Additions	Retirements & Adjustments	Balance 6/30/10
Capital assets not being depreciated-				
Land	$ 271,707	$ –	$ –	$ 271,707
Capital assets being depreciated:				
Buildings and improvements	3,511,023	11,700	–	3,522,723
Office furniture and equipment	240,314	–	(50,098)	190,216
Equipment	507,498	57,251	(118,540)	446,209
Vehicles	543,702	23,723	–	567,425
Total capital assets being depreciated	4,802,537	92,674	(168,638)	4,726,573
Less accumulated depreciation for:				
Buildings and improvements	2,904,938	167,156	733	3,072,827
Office furniture and equipment	167,923	24,541	(47,593)	144,871
Equipment	355,994	25,992	(57,285)	324,701
Vehicles	304,462	65,570	–	370,032
Total accumulated depreciation	3,733,317	283,259	(104,145)	3,912,431
Net capital assets being Depreciated – net	1,069,220	(190,585)	(64,493)	814,142
Total capital assets – net	$ 1,340,927	$ (190,585)	$ (64,493)	$ 1,085,849

Depreciation expense for the year ending June 30, 2010 was charged to functions/programs as follows:

Administration	$ 254,840
Engineering/compliance	1,573
Air monitoring	26,846
Total depreciation expense	$ 283,259

NOTE 5. LONG-TERM DEBT

1996 Refunding of Certificates of Participation – The Certificates in the amount of $4,880,000 were issued July 1, 1996 to advance refund the District's 1989 Certificates of Participation for the Administration Building Project. The Certificates consist of Serial Certificates in the amount of $3,125,000 with interest ranging from 3.9% to 5.6% payable semi-annually on each June 1 and December 1, commencing December 1, 1996. Principal on the Certificates is due annually on December 1st beginning in 1996 and ending 2011. The remaining $1,755,000 is Term Certificates due December 1, 2015 with an interest rate of 5.7%, also with interest payable semi-annually on each June 1 and December 1, commencing December 1, 1996. As of August 31, 2010 the Certificates were paid in full.

Capital Leases – The District has noncancelable capital lease agreements with CIT Communications Finance Corp. to finance the acquisition of a phone system and IFC Credit Corporation to finance the acquisition of a computer system. The leases qualify as a capital lease for accounting purposes as defined under Accounting Standards Codification Topic 840, Leases, and therefore have been recorded at the present value of future minimum lease payments at the date of the inception of the lease. Assets under the lease total $85,322 with accumulated depreciation of $45,222 at June 30, 2010. The terms of the leases are as follows:

- **CIT Communications Finance Corp**. **–** Principal and interest payments of $1,121 with interest at 7.49% are to be made annually beginning December 1, 2008 and continuing until November 1, 2011.

- **IFC Credit Corporation –** Principal and interest payments of $1,542 with interest at 8.8% are to be made annually beginning May 15, 2008 and continuing until March 15, 2011.

Long-term debt balances and transactions for the year ended June 30, 2010 are as follows:

	Balance 6/30/09	Additions	Retirements	Balance 6/30/10	Due Within One Year
COPs and capital leases:					
1996 Refunding of certificates of Participation	$ 2,740,000	$ –	$ 300,000	$ 2,440,000	$ 330,000
Capital lease obligations	65,979	–	34,559	31,420	25,916
Total COPs and capital leases	2,805,979	–	334,559	2,471,420	355,916
Other liabilities:					
Compensated absences	357,530	3,581	–	361,111	161,838
Other post employee benefits	–	76,455	–	76,455	–
Total	$ 3,163,509	$ 80,036	$ 334,559	$ 2,908,986	$ 517,754

In prior years, the General Fund has been used to liquidate compensated absences.

NOTE 5. LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Certificates of Participation Principal	Certificates of Participation Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Principal	Total Interest
2011	$ 330,000	$ 129,155	$ 25,916	$ 1,414	$ 355,916	$ 130,569
2012	355,000	109,975	5,504	97	360,504	110,072
2013	385,000	89,063	–	–	385,000	89,063
2014	420,000	66,120	–	–	420,000	66,120
2015	455,000	41,183	–	–	455,000	41,183
2016	495,000	14,107	–	–	495,000	14,107
Total	$ 2,440,000	$ 449,603	$ 31,420	$ 1,511	$ 2,471,420	$ 451,114

In fiscal year 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, 2010, the amount of defeased debt outstanding but removed from the District’s long-term obligations amounted to $2,065,000.

NOTE 6. DEFERRED COMPENSATION PLAN

The District offers a deferred compensation plan for its eligible employees wherein amounts earned by the employee are paid at a future date. All full-time, regular, salaried employees are permitted to participate in the Plan beginning on the first day of the month following their hire date. The employee may elect to make contributions up to the limits established by the Internal Revenue Service for this type of plan. The employees become 100% vested in their own contributions from the first date of participation.

The Plan was originally established in conformity with Section 457 of the Internal Revenue Code which prevented governments from placing plan assets in a trust for the benefit of participants. Consequently, the participating employees’ assets were potentially at risk of loss by claims of the District’s general creditors. In 1996, congress amended Section 457 by requiring governments to place plan assets in a trust for the exclusive benefit of participants and their beneficiaries thus protecting the Plan assets from the District’s general creditors.

The District has complied with the amended Section 457 requirements. Governmental Accounting Standards Board Statement (GASB) No. 32 states that if a fiduciary relations no longer exists between the governmental entity and the Section 457 deferred compensation plan, the governmental entity should not report the assets of the plan in its financial statements.

NOTE 6. DEFERRED COMPENSATION PLAN (Continued)

The District believes that, since it does not provide investment advice or administer the Plan, it does not maintain a fiduciary relations with the Plan. Therefore, the District does not report the Plan assets in its financial statements.

NOTE 7. PENSION PLAN

Plan Description – The District contributes to the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. CalPERS' issues a publicly available annual financial report that includes financial statements and required supplementary information for the District. That report may be obtained from their Executive office, 400 P Street, Sacramento, CA 95814.

Funding Policy – Participants are required to contribute 7% of their annual covered salary, of this 7%, the District has agreed to pay 100%. The District is required to contribute at an actuarial determined rate recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the year ended June 30, 2010 the employer contribution rate was 11.314%. The District's contributions to CalPERS for the years ending June 30, 2010, 2009 and 2008 were $585,193, $582,084 and $572,611, respectively, equal to the required contributions for each year.

NOTE 8. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – The District has contracted with the Public Employees Retirement System (PERS) under the PERS Care Health Plan to provide benefits of the Meyers-Geddes State Employees' Medical and Hospital Care Act per Government Code Section 22850. The Plan provides for continuation of medical insurance benefits for certain retires or annuitant and their dependents. The Plan can be amended by action of the District Board on passing a Resolution. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy – The obligations of the plan members and the District are established by action of the District Board pursuant to the passing of a Resolution. The Districts' contribution for each retiree or annuitant is the minimum amount provided under Government Code Section 22825 of the Public Employees Medical and Hospital Care Act (70% of $105, or $73.50 per month for fiscal year 2010). The retiree is responsible for any premium costs in excess of the District's contribution. The District currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. As of June 30, 2010, the cost of funding the Plan for the period was $8,225.

Annual OPEB Cost and Net OPEB Obligation – The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid

NOTE 8. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation. Because fiscal year 2010 is the first year of implementation of GASB Statement 45, the OPEB obligation at the beginning of the year is zero and the OPEB cost is equal to the ARC.

Annual required contribution (ARC)	$	84,680
Interest on net OPEB obligation		–
Adjustment to ARC		–
Annual OPEB cost expense		84,680
Contributions made		(8,225)
Increase in net OPEB obligation		76,455
Net OPEB obligation, beginning of year		–
Net OPEB obligation, end of year	$	76,455

The Districts' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 84,680	$ 8,225	10%	$ 76,455

Funding Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $853,852, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $3,400,003, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 25.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits (only one year is presented in this year of implementation).

NOTE 8. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 4.0% investment rate of return (discount rate) and an annual health care cost trend rate of 5% per year. The unfunded actuarial liability is being amortized over a closed thirty year period as a level percentage of future payroll assumed to grow 3.25% per year. The remaining amortization period at June 30, 2010, was twenty-nine years.

NOTE 9. FUND BALANCE ADJUSTMENT

A prior period adjustment of $164,204 was made to remove compensated absences improperly accrued to the General Fund.

NOTE 10. RISK FINANCING

The District is exposed to various risks of loss related to torts, thefts, damage or destruction of assets: errors and omissions, injuries to workers, and natural disasters. The District covers its liability for significant claims by purchasing property, liability, crime and workers' compensations insurance. These risks are covered by a combination of participation in Public Property Insurance Program (PEPIP), Special Liability Insurance Program (SLIP), Alliant Crime Insurance Program (ACIP), and Special District Risk Management Authority (SDRMA). There have been no significant reductions in insurance coverage in the current year. Settlement amounts have not materially exceeded insurance coverage for the current year.

SDRMA was formed under a joint powers agreement pursuant to California Government Code Section 6500 et seq. effective August 1, 1986 to provide general liability, comprehensive/collision liability and property damage, and errors and omissions risk financing for the member districts. SDRMA is administered by a Board of Directors, consisting of one member appointed by the California Special Districts Association and five members elected by the participating districts.

NOTE 11. OPERATING LEASES

The District leases certain office equipment under noncancellable leases. A copy machine lease expires in September 2013, the monthly lease is $1,370. A mail system lease expires April 2012, the monthly lease is $384.

NOTE 11. OPERATING LEASES (Continued)

Future minimum lease payments under noncancelable operating leases are as follows:

Year Ending June 30		
2011	$	21,048
2012		20,280
2013		4,110
Total	$	45,438

NOTE 12. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED

In February 2009, The Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards No. 54 Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The requirements of this Statement are effective for financial statements for periods after June 15, 2010 (the District's fiscal year ending June 30, 2011). At this time the District is not certain of the effect the adoption of Statement No. 54 will have on the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2010

Fiscal. Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2010	7/1/2009	$ –	$ 853,852	$ 853,852	0.0%	$ 3,400,003	25.1%

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
DMV Surcharges	$ 3,500,000	$ 3,500,000	$ 3,538,237	$ 38,237
Grants	1,179,510	3,079,975	2,930,573	(149,402)
License and permits	3,153,783	3,153,784	2,871,593	(282,191)
Fines and fees	924,842	924,842	991,830	66,988
Investment earnings	38,000	40,000	335,613	295,613
Other revenues	757,113	757,113	661,061	(96,052)
Total revenues	9,553,248	11,455,714	11,328,907	(126,807)
EXPENDITURES:				
Current:				
Administration	1,701,824	1,701,614	1,395,309	306,305
Engineering/ Compliance	2,823,413	2,819,055	2,590,951	228,104
Air monitoring	777,563	781,919	707,579	74,340
Planning and grants	4,008,465	11,747,055	5,888,470	5,858,585
Debt service:				
Principal	334,559	334,559	334,559	–
Interest and other charges	112,086	112,308	151,897	(39,589)
Capital outlay	122,500	122,500	70,494	52,006
Total expenditures	9,880,410	17,619,010	11,139,259	6,479,751
NET CHANGE IN FUND BALANCE	$ (327,162)	$ (6,163,296)	$ 189,648	$ 6,352,944

NOTE 1. BUDGETARY DATA

The District adopts an annual operating budget 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.

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.