MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2011

AND INDEPENDENT AUDITORS' REPORT

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT

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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, 2011 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, 2011 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 24 and the Budgetary Comparison Schedule on page 25 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.

November 17, 2011

Hayashi & Wayland

1188 Padre Drive, Suite 101 |P.O. Box 1879 |Salinas, CA 93902 |Tel: (831) 759-6300 |Fax: (831) 759-6380
P.O. Box 22205 |Carmel, CA 93923 |Tel: (831) 624-5333 or (831) 625-3374 |Fax: (831) 626-9113
104 South Vanderhurst Avenue, Suite A |P.O. Box 927 |King City, CA 93930 |Tel: (831) 385-5426 |Fax: (831) 385-5156
660 Camino Aguajito, Ste. 300 |Monterey, CA 93940 |Tel: (831) 647-8055 |Fax: (831) 647-8465
1101 Riverside Avenue, Suite C |Paso Robles, CA 93446 |Tel: (805) 226-7375 |Fax: (805) 221-3131

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

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 (FY) ended June 30, 2011. 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 $20 million (net assets). Of this amount, $11 million (restricted net assets) are legally restricted for grant programs and other purposes.
- The District's total net assets increased by $1,429,000 over the prior year.
- As of the close of the fiscal year, the District's governmental funds reported combined ending fund balances of $19.7 million, a decrease of $721,000 in comparison to the prior year.

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.

The District has adopted Governmental Accounting Standard Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as part of its FY 2010-11 reporting. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

Because the focus of the governmental funds is narrower than that of the government–wide financial statements, it is 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 through 13 of this report.

Notes to Basic 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 23 of this report.

GOVERNMENT–WIDE FINANCIAL ANALYSIS

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

	2011	2010	Change
Current and other assets	$ 20,403,000	$ 21,363,000	$ (960,000)
Capital assets	908,000	1,086,000	(178,000)
Total assets	$ 21,311,000	$ 22,449,000	$ (1,138,000)
Current and other liabilities	$ 709,000	$ 895,000	$ (186,000)
Long-term liabilities	528,000	2,909,000	(2,381,000)
Total liabilities	$ 1,237,000	$ 3,804,000	$ (2,567,000)
Invested in capital assets, net of related debt	$ 902,000	$ (1,354,000)	$ 2,256,000
Restricted net assets	11,102,000	9,020,000	2,082,000
Unrestricted	8,070,000	10,979,000	(2,909,000)
Total net assets	$ 20,074,000	$ 18,645,000	$ 1,429,000

Net assets may serve over time as a useful indicator of the District's financial position. At the close of the fiscal year ended June 30, 2011, the District's assets exceeded its liabilities by $20 million.

Approximately 96% of the District's current and other assets consist of cash and investments.

The value of the District's capital assets exceeded the debt attributed to the acquisition of the assets by approximately $902,000 at June 30, 2011. As of August 31, 2010, the debt associated with the District's Certificates of Participation was paid in full.

Approximately $11 million (55% of total net assets) are restricted for grants, debt service and other purposes.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

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

	2011	2010	Change
Revenues:			
Program Revenues:			
Charges for services	$ 3,713,000	$ 4,038,000	$ (325,000)
Operating grants and contributions	4,301,000	2,727,000	1,574,000
General Revenues:			
DMV surcharges	2,297,000	2,359,000	(62,000)
AB 923	1,148,000	1,179,000	(31,000)
Grants	325,000	256,000	69,000
City/County contributions	176,000	174,000	2,000
Investment income	87,000	336,000	(249,000)
Loss on disposal of asset	(3,000)	(42,000)	39,000
Other	323,000	311,000	12,000
Total Revenues	12,367,000	11,338,000	1,029,000
Expenses:			
Administration	2,034,000	1,639,000	395,000
Engineering/Compliance	2,599,000	2,667,000	(68,000)
Air monitoring	728,000	727,000	1,000
Planning and grants	5,541,000	5,912,000	(371,000)
Interest on long-term debt	36,000	139,000	(103,000)
Total Expenses	10,938,000	11,084,000	146,000
Increase in Net Assets	1,429,000	254,000	1,175,00
Net assets, beginning of year	18,645,000	18,391,000	254,000
Net assets, end of year	$ 20,074,000	$ 18,645,000	$ 1,429,000

Revenues from fees, fines and charges for services totaled approximately $3.7 million, representing a decrease of approximately $325,000 (about 8%) 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. FY 2009–10 revenues included a partial year of Cemex revenues earned before its closure.

District fees have historically been increased annually in alignment with the San Francisco-Oakland-San Jose Consumer Price Index (CPI). The December 2009 CPI was 2.6%. A 2.6% increase was applied to the District's fee schedule for FY 2010–11, which resulted in an increase to revenues of approximately $100,000.

Grants revenues were higher in FY 2010–11 by about $1.6 million. The District received the final installment of the School Bus grant program, totaling approximately $3.4 million. Moyer grant funds were up by about $65,000 as compared to the previous year.

Revenues from State DMV surcharges (including AB 923 funds) were down almost 3% from the previous fiscal year, or about $93,000 in total. The decrease was primarily due to a timing issue with delays in DMV billings as a result of the annual State budget process. EPA grant funds were up by 41% from the previous year.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

Permit penalties were up by approximately $31,000 as more permit holders were late in paying annual renewal fees. Investment income was down significantly from the previous period, primarily due to a $47,000 prior period allocation adjustment made by Monterey County and due to investment loss recoveries recorded in FY 2010-11.

Expenditures for the year totaled $10.9 million. All division expenses were down as compared to the prior year with the exception of Administration. Administration expenses were higher by $395,000 primarily due to recording a bad debt reserve for the loan receivable from Energy Alternative Solutions. As described on Page 18, Note 3 of the "Notes to Basic Financial Statements," Energy Alternative Solutions is in default on the loan as of June 30, 2011. Therefore, the allowance for doubtful accounts was increased by $348,335, thus affecting total Administration expenses.

Planning and grant expenses were down by $371,000 largely due to a decrease in grant program payments as compared to the prior year. Grant payments fluctuate from year to year due to the timing of completion of grant-funded projects.

Overall, net assets increased by $1.4 bringing net assets to $20 million as June 30, 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The book value of the District's investment in capital assets was $908,000 (net of accumulated depreciation of $4.1 million) as of June 30, 2011. This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, computer and office equipment, and vehicles.

In FY 2010–11, there was a $178,000 decrease in capital assets consisting of:

Capital purchases	$ 88,000
Assets retired	(68,000)
Depreciation, net of retired assets	(198,000)
Total	$ (178,000)

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

Debt Administration

At June 30, 2011, the District had total debt of $528,000, of which $523,000 was long-term debt consisting of Compensated Absences and Other Post Employment Benefits (OPEB) liabilities.

In August 2010, the District retired the outstanding 1996 Certificates of Participation by paying approximately $2.4 million. New debt for FY 2010-11 included increases to Compensated Absences and to Other Post Employment Benefits liabilities, totaling about $85,000.

Details of the debt balances are found on page 19, Note 5 of the "Notes to Basic Financial Statements."

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.

The General Fund balance at June 30, 2011 was $19.7 million, a decrease of approximately $721,000 over the prior year. The decrease was primarily due to the following factors:

- Retirement of the debt associated with District's 1996 Certificates of Participation (COP). Principal and interest payments on the COP debt totaled $2.4 million.

- Increase to the School Bus program funds of approximately $802,000. The final installment of the Lower Emissions School Bus Program (LESBP) grant funds were received from the State totaling $3.6 million. Grant expenditures for this program were $2.8 million. The remainder of the grant proceeds will be paid to grantees in FY 2011–12.

- Increase to the Moyer Grant program funds of approximately $276,000 (net of administrative expenses). Grant funds received from the State totaled $820,000 and grant expenditures were $466,000. The remainder of the grant funds received in FY 2010-11 will be expended in the following fiscal year once the projects are completed.

- Increase to the AB923 Grant program funds of approximately $614,000 (net of administrative expenses). DMV $2.00 fees received from the State totaled $1.1 million. AB923 grant expenditures were $529,000.

- Addition to the allowance for doubtful accounts of $348,000 to reserve for the delinquent loan receivable from Energy Alternative Solutions.

BUDGETARY HIGHLIGHTS

<u>Revenues</u>

The actual revenues total of $12.42 million compared closely to a final budget of $12.46 million. Revenues from DMV surcharges showed the highest negative variance of $155,000. This was primarily due to a timing issue with delays in DMV billings as a result of the annual State budget process. Combined revenues from Licenses and Permits and from Fines and Fees exceeded the budget by about $242,000 in total.

<u>Expenditures</u>

Actual expenditures for the year totaled $13.1 million as compared to a budget of $19.8 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, $4.6 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 $1.1 million, resulting in a budget variance of $3.5 million. Similar timing issues existed for the Moyer and LESBP grant programs.

BUDGETARY HIGHLIGHTS (Continued)

The largest negative budget variance in administrative and operational expenses was in Administration due to the $348,335 increase to the allowance for doubtful accounts that was not included in the budget. Other division expenditures, including Capital Outlays, were below budget by about $466,000 in total. The categories with the largest positive budget variances were Professional Services ($243,000), Wages and Benefits ($99,000), and Capital Outlays ($148,000).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The FY 2011–12 new budget was prepared with the assumption that operating revenues would be about 1% lower than the previous year. The District's fees were adjusted by 1.5% in line with the 2011 San Francisco-Oakland-San Jose consumer price index (CPI).

For non-operating budget revenues (grant program revenues), the FY 2011-12 budget is lower by about $3.4 million due to receiving the final installment of the State Lower Emissions School Bus Program (LESBP) grant funds received in FY 2010-11.

The FY 2011–12 budget also reflects elimination of approximately $460,000 in debt service now that the District's Certificates of Participation debt has been paid off.

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

- Potential losses in permit fee revenues from business closures due to the slow economy.
- Expected increases to CalPERS retirement costs as employer rates are adjusted upwards to offset losses from investments of pension funds.
- Increases to employee health and benefit programs.
- 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, 2011

ASSETS:	
Cash and investments	$ 19,576,596
Receivables, net	339,644
Receivables from other governments	474,498
Prepaid expenses	12,517
Loan receivable, net	–
Capital assets, net:	
Nondepreciable	271,707
Depreciable	636,129
Total assets	21,311,091
LIABILITIES:	
Accounts payable	610,966
Accrued liabilities	97,938
Noncurrent liabilities:	
Due within one year	160,268
Due in more than one year	367,883
Total liabilities	1,237,055
NET ASSETS:	
Invested in capital assets - net of related debt	902,332
Restricted	11,101,412
Unrestricted	8,070,292
Total net assets	$ 20,074,036

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets
FUNCTIONS/PROGRAMS				
Governmental activities:				
Administration	$ 2,034,217	$ 417	$ –	$ (2,033,800)
Engineering/Compliance	2,599,398	3,595,320	–	995,922
Air monitoring	728,041	117,441	35,957	(574,643)
Planning and grants	5,541,357	–	4,265,183	(1,276,174)
Interest on long-term debt	35,633	–	–	(35,633)
Total governmental activities	$ 10,938,646	$ 3,713,178	$ 4,301,140	$ (2,924,328)
General revenues:				
DMV surcharges				2,296,785
AB 923				1,148,393
Grants				325,198
City/County contributions				176,288
Investment income				86,576
Loss on capital asset				(3,422)
Difference on trade-in				812
Other				323,119
Total general revenues				4,353,749
CHANGE IN NET ASSETS				1,429,421
NET ASSETS, BEGINNING OF YEAR				18,644,615
NET ASSETS, END OF YEAR				$ 20,074,036

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
BALANCE SHEET – GENERAL FUND
JUNE 30, 2011

ASSETS		
Cash and investments	$	19,576,596
Receivables, net		339,644
Receivables from other governments		474,498
Prepaid expenses		12,517
Loan receivable, net		–
Total assets	$	20,403,255
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$	610,966
Accrued liabilities		97,938
Total liabilities		708,904
Fund Balances:		
Nonspendable		17,685
Restricted:		
AB2766		4,217,332
Moyer		691,720
School bus		3,570,890
Energy crisis		66,005
AB923		2,555,465
Committed:		
Economic uncertainties		1,565,000
Building and facilities		1,000,000
Vehicle and equipment replacement		100,000
OPEB funding		860,000
Unassigned		5,050,254
Total fund balances		19,694,351
Total liabilities and fund balances	$	20,403,255

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

Fund balance – General Fund	$	19,694,351
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		907,836
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		(528,151)
NET ASSETS	$	20,074,036

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, 2011

REVENUES:	
DMV surcharges	$ 3,445,178
Grants	4,678,514
Licenses and permits	2,835,151
Fines and fees	749,889
Investment earnings	86,576
Other revenues	627,545
Total revenues	12,422,853
EXPENDITURES:	
Current:	
Administration	1,812,205
Engineering/Compliance	2,544,338
Air monitoring	670,336
Planning and grants	5,527,816
Debt service:	
Principal	2,465,916
Interest and other charges	35,633
Capital outlay	87,834
Total expenditures	13,144,078
NET CHANGE IN FUND BALANCE	(721,225)
FUND BALANCE, BEGINNING OF YEAR	20,415,576
FUND BALANCE, END OF YEAR	$ 19,694,351

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 CHANGE IN FUND BALANCE	$ (721,225)
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	87,834
Accumulated depreciation on trade-in	812
Current year depreciation	(263,237)
Loss on disposal of asset	(3,422)
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	2,465,916
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	(3,922)
OPEB costs	(81,159)
INCREASE IN NET ASSETS	$ 1,429,421

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 – 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. 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The District also has cash held with a banking institution for accounts payable and payroll purposes.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011, there was no deferred revenue.

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.

Net Assets – 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.

The District receives grant monies that must be used for specific purposes, at June 30, 2011, the amount of these funds was $11,101,412.

Fund Balances – In March 2009, the Governmental Accounting Standards Board (GASB) issued Statement no. 54 – *Fund Balance Reporting and Government Fund Type Definitions*. This Statement establishes fund balance classifications based primarily on the extent to which the District is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the Fund financial statements, fund balance consists of Non-spendable fund balances, which includes amounts that cannot be spent because they are not in spendable form, or they are legally or contractually required to be maintained intact. Restricted fund balances are amounts restricted to specific purposes. Committed fund balances are amounts that can only be used for specific purposes as pursuant to official action by the Board prior to the end of the reporting period. Unassigned fund balances represent fund balances that have not been assigned to other funds and have not been restricted or committed to specific purposes within the general fund.

When restricted and other fund balance resources are available for use, it is the District's policy to use restricted resources first, followed by committed and unassigned amounts, respectively.

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.

Subsequent Events – Subsequent events have been evaluated through November 17, 2011, which is the date the financial statements were available to be issued.

NOTE 2. DEPOSITS AND INVESTMENTS

The District maintains cash deposits with the County of Monterey treasurer and a banking institution.

Cash and Investments in County Treasury – Cash deposited with the County Treasurer in the amount of $19,475,263 at June 30, 2011 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, 2011, the carrying amount of the District's bank deposits was $74,041. The amount was fully covered by the 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, 2011, Energy Alternative Solutions is in default on the loan and an allowance for doubtful accounts in the amount of $348,335 was established for the year ended June 30, 2011.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance 6/30/10	Additions	Retirements & Adjustments	Balance 6/30/11
Capital assets not being depreciated – Land	$ 271,707	$ –	$ –	$ 271,707
Capital assets being depreciated:				
Buildings and improvements	3,522,723	–	–	3,522,723
Office furniture and equipment	190,216	54,949	–	245,165
Equipment	446,209	33,697	(28,457)	451,449
Vehicles	567,425	–	(39,981)	527,444
Total capital assets being depreciated	4,726,573	88,646	(68,438)	4,746,781
Less accumulated depreciation for:				
Buildings and improvements	3,072,827	166,439	–	3,239,266
Office furniture and equipment	144,871	21,786	–	166,657
Equipment	324,701	19,021	(27,035)	316,687
Vehicles	370,032	55,991	(37,981)	388,042
Total accumulated depreciation	3,912,431	263,237	(65,016)	4,110,652
Net capital assets being depreciated – net	814,142	(174,591)	(3,422)	636,129
Total capital assets – net	$ 1,085,849	$ (174,591)	$ (3,422)	$ 907,836

Depreciation expense for the year ending June 30, 2011 was charged to functions/programs as follows:

Administration	$ 189,069
Engineering/compliance	30,863
Air monitoring	43,305
Total depreciation expense	$ 263,237

NOTE 5. LONG-TERM DEBT

Capital Lease – The District has a noncancelable capital lease agreement with CIT Communications Finance Corp. to finance the acquisition of a phone system. The lease qualifies as a capital lease for accounting purposes and therefore has 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 $65,074 at June 30, 2011. The terms of the lease is 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.

Long-term debt balances and transactions for the year ended June 30, 2011 are as follows:

	Balance 6/30/10	Additions	Retirements	Balance 6/30/11	Due Within One Year
COPs and capital leases:					
1996 Refunding of Certificates of Participation	$ 2,440,000	$ –	$ (2,440,000)	$ –	$ –
Capital lease obligations	31,420	–	(25,916)	5,504	5,504
Total COPs and capital leases	2,471,420	–	(2,465,916)	5,504	5,504
Other liabilities:					
Compensated absences	361,111	3,922	–	365,033	154,764
Other post employment benefits	76,455	81,159	–	157,614	–
Total	$ 2,908,986	$ 85,081	$ (2,465,916)	$ 528,151	$ 160,268

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

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest
2012	$ 5,504	$ 97

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.

The District believes that, since it does not provide investment advice or administer the Plan, it does not maintain a fiduciary relationship 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, 2011 the employer contribution rate was 11.723%. The District's contributions to CalPERS for the years ending June 30, 2011, 2010 and 2009 were $570,009, $585,193 and $582,084, 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 retirees or annuitants 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 ($108 per month for fiscal year 2011). 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, 2011, the cost of funding the Plan for the year was $10,492.

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 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 for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual required contribution (ARC)	$ 91,622
Interest on net OPEB obligation	3,058
Adjustment to ARC	(3,029)
Annual OPEB cost expense	91,651
Contributions made	(10,492)
Increase in net OPEB obligation	81,159
Net OPEB obligation, beginning of year	76,455
Net OPEB obligation, end of year	$ 157,614

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30 were as follows:

As of June 30	Annual OPEB Cost	Actual Contribution Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 84,680	$ 8,225	10%	$ 76,455
2011	$ 91,651	$ 10,492	11%	$ 157,614

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

Funding Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $931,487, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $3,305,092, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 28.2%.

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).

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 5.0% 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, 2011, was twenty-eight years.

NOTE 9. 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.

NOTE 9. RISK FINANCING (Continued)

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 10. OPERATING LEASES

The District entered into a lease for office space with the City of Watsonville on January 4, 2011, which expires on January 4, 2013. The monthly rent is $1,041. The total lease expense for the year ended June 30, 2011 was $5,205. The District has entered into a sub-lease with Santa Cruz County Regional Transportation Commission on June 20, 2011 to lease a portion of the space at $400 a month.

The District leases certain office equipment under noncancelable operating leases as follows: 1) A copy machine lease expires in September 2013, the monthly lease is $1,370, total lease expense for the year ended June 30, 2011 was $16,440; 2) A mail system lease expires April 2012, the monthly lease is $384, total lease expense for the year ended June 30, 2011 was $4,608.

Future minimum lease payments and sub-lease receipts under noncancelable operating leases are as follows:

Year Ending June 30	Lease Payments	Sub-Lease Receipts
2012	$ 33,540	$ 4,800
2013	23,838	2,400
2014	5,480	–
Total	$ 62,858	$ 7,200

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, 2011

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%
2011	7/1/2009	$ –	$ 931,487	$ 931,487	0.0%	$ 3,305,092	28.2%

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, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:				
DMV Surcharges	$ 3,600,000	$ 3,600,000	$ 3,445,178	$ (154,822)
Grants	3,057,000	4,711,348	4,678,514	(32,834)
License and permits	2,704,000	2,704,000	2,835,151	131,151
Fines and fees	629,000	639,000	749,889	110,889
Investment earnings	272,000	171,000	86,576	(84,424)
Other revenues	637,879	637,879	627,546	(10,333)
Total revenues	10,899,879	12,463,227	12,422,854	(40,373)
EXPENDITURES:				
Current:				
Administration	1,589,775	1,593,875	1,812,206	(218,331)
Engineering/ Compliance	2,709,987	2,637,487	2,544,338	93,149
Air monitoring	741,564	713,214	670,336	42,878
Planning and grants	9,067,188	12,132,575	5,527,816	6,604,759
Debt service:				
Principal	423,520	2,465,980	2,465,916	64
Interest and other charges	35,635	35,635	35,633	2
Capital outlay	174,000	236,000	87,834	148,166
Total expenditures	14,741,669	19,814,766	13,144,079	6,670,687
NET CHANGE IN FUND BALANCE	$ (3,841,790)	$ (7,351,539)	$ (721,225)	$ 6,630,314

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.