MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2012

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, 2012 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, 2012 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.

Accounting principles generally accepted in the United States of America require that 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 be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

November 28, 2012

Hayashi & Wayland

1188 Padre Drive, Suite 101 | P.O. Box 1879 | Salinas, CA 93902 | Tel: (831) 759-6300 | Fax: (831) 759-6380
26515 Carmel Rancho Blvd., Suite 100 | Carmel, CA 93923 | Tel: (831) 624-5333 | 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

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

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, 2012. 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 $17.6 million (net position). Of this amount, $8.3 million (restricted net position) are legally restricted for grant programs and other purposes.

- The District's total net position decreased by $2,431,000 from the prior year.

- As of the close of the fiscal year, the District's governmental funds reported combined ending fund balances of $17.1 million, a decrease of $2,609,000 in comparison to the prior year. The major factors contributing to this decrease are described on page 7.

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 Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position 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 position 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, planning and grants. 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. The General Fund includes all of the sub-funds the District maintains, including the individual grant program funds such as AB2766, AB293, School Bus Fund and the Moyer Grant Fund. 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 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 24 of this report.

GOVERNMENT–WIDE FINANCIAL ANALYSIS

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

	2012	2011	Change
Current and other assets	$ 17,780,000	$ 20,403,000	$ (2,623,000)
Capital assets	1,196,000	908,000	288,000
Total assets	$ 18,976,000	$ 21,311,000	$ (2,335,000)
Current and other liabilities	$ 857,000	$ 709,000	$ 148,000
Long-term liabilities	476,000	528,000	(52,000)
Total liabilities	$ 1,333,000	$ 1,237,000	$ 96,000
Net investment in capital assets	$ 1,196,000	$ 902,000	$ 294,000
Restricted	8,280,000	11,102,000	(2,822,000)
Unrestricted	8,167,000	8,070,000	97,000
Total net position	$ 17,643,000	$ 20,074,000	$ (2,431,000)

Net position may serve over time as a useful indicator of the District's financial position. At the close of the fiscal year ended June 30, 2012, the District's assets exceeded its liabilities by $17.6 million.

Approximately 94% 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 $1,196,000 at June 30, 2012.

Approximately $8.3 million (47% of total net position) are restricted for grants and other purposes.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

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

	2012	2011	Change
Revenues:			
Program Revenues:			
Charges for services	$ 3,688,000	$ 3,713,000	$ (25,000)
Operating grants and contributions	752,000	4,301,000	(3,549,000)
General Revenues:			
DMV surcharges	2,502,000	2,297,000	205,000
AB 923	1,251,000	1,148,000	103,000
Federal grants	291,000	325,000	(34,000)
City/County contributions	170,000	176,000	(6,000)
Investment income	144,000	87,000	57,000
Loss on capital asset	(4,000)	(3,000)	(1,000)
Other	401,000	323,000	78,000
Total Revenues	9,195,000	12,367,000	(3,172,000)
Expenses:			
Administration	1,797,000	2,034,000	(237,000)
Engineering/Compliance	2,344,000	2,599,000	(255,000)
Air monitoring	725,000	728,000	(3,000)
Planning and grants	6,760,000	5,541,000	1,219,000
Interest on long-term debt	–	36,000	(36,000)
Total Expenses	11,626,000	10,938,000	688,000
Change in net position	(2,431,000)	1,429,000	(3,860,000)
Net position, beginning of year	20,074,000	18,645,000	1,429,000
Net position, end of year	$ 17,643,000	$ 20,074,000	$ (2,431,000)

Revenues from fees, fines and charges for services totaled approximately $3.7 million, which is $25,000 lower than the previous year's total. Permit fees from major sources were higher by almost 2%. Other revenue categories had decreases as compared to the prior year, including asbestos and source test analysis fees.

District fees have historically been increased annually in alignment with the San Francisco-Oakland-San Jose Consumer Price Index (CPI). The December 2010 CPI was 1.5%. A 1.5% increase was applied to the District's fee schedule for FY 2011–12, which resulted in an increase to revenues of approximately $51,000.

Grants revenues were lower in FY 2011–12 by about $3.5 million. The decrease is primarily due to no new School Bus Grant Program monies received, as this program was to sunset in June 2012. Moyer grant funds were up by about $181,000 as compared to the previous year.

Revenues from State DMV surcharges (including AB 923 funds) were about 9% higher than the previous fiscal year, or about $308,000 in total. The increase was primarily due to recoveries of DMV surcharges related to FY 2010-11 that had been delayed as a result of the annual State budget process. Federal grant funds from the EPA were down by 10% as compared to the previous year due to limited funding from the Federal government.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

Permit and civil penalties totaled $214,000 for the fiscal year. Permit penalties were down by about 31% and civil penalties were up about 21% due to a couple of large asbestos case settlements. Investment income was up by about $57,000, which included investment loss recoveries from Monterey County for FY 2008-09 losses.

Expenditures for the year totaled $11.6 million. All division expenses were down as compared to the prior year with the exception of the Planning Division. Planning expenses were higher by $1.2 million primarily due to the final School Bus Grant Program expenditures to reimburse grantees.

Overall, net position decreased by $2.4 million bringing net position to $17.6 million as of June 30, 2012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The book value of the District's investment in capital assets was $1,196,000 (net of accumulated depreciation of $4.2 million) as of June 30, 2012. This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, computer and office equipment, and vehicles.

In FY 2011–12, there was a $288,000 increase in capital assets consisting of:

Capital purchases	$ 489,000
Assets retired	(75,000)
Depreciation, net of retired assets	(126,000)
Total	$ 288,000

Capital purchases for the year included a $211,000 heating and air conditioning system replacement at the District's headquarters and $259,000 for air monitoring equipment.

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, 2012, the District had total debt of $638,000, of which $476,000 was long-term debt consisting of Compensated Absences and Other Post Employment Benefits (OPEB) liabilities.

New debt for FY 2011-12 included increases to Compensated Absences and to Other Post Employment Benefits liabilities, totaling about $116,000.

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, 2012 was $17.1 million, a decrease of approximately $2,609,000 from the prior year. The decrease was primarily due to the net of the following factors:

- Decrease to the School Bus Grant Program funds of approximately $3,375,000. Grant expenditures for this program were $3.4 million. This grant program was originally set to end on June 30, 2012 but has now been extended to June 30, 2014.

- Decrease of approximately $61,000 to General Fund reserves designated for buildings and facilities. The heating and air conditioning system replacement project was originally budgeted for $150,000. The actual cost was $211,000 with the additional funds provided by the General Fund reserve designated for buildings and facilities.

- Increase to the Moyer Grant program funds of approximately $200,000 (net of administrative expenses). Grant funds received from the State totaled $639,000 and grant expenditures were $341,000. The remainder of the grant funds received in FY 2011-12 will be expended in the following fiscal year once the projects are completed.

- Increase to the AB923 Grant program funds of approximately $540,000 (net of administrative expenses). DMV $2.00 fees received from the State totaled $1.25 million. AB923 grant expenditures were $727,000.

- Increase to the General Grant fund of $123,000. The District received the first installment of offsite mitigation fees from the East Garrison Specific Plan Project in Monterey County. These monies are designated for agricultural pump retrofits and replacements and for purchasing low emission school buses.

BUDGETARY HIGHLIGHTS

<u>Revenues</u>

The actual revenues total of $9.199 million compared closely to a final budget of $9.213 million. Revenues with the highest positive budget variance included the DMV Surcharges variance of $138,000 which was due to receiving surcharges from the State that normally would have been received in the prior fiscal year. In addition, the Fines and Fees revenue category showed a $133,000 positive budget variance due to receiving higher than expected civil penalties, primarily from asbestos case settlements.

Revenues from grants showed the highest negative variance of $207,000. This was primarily due to receiving lower Moyer grant program revenues than had been budgeted. The additional Moyer grant revenues will be received in the FY 2012-13.

BUDGETARY HIGHLIGHTS (Continued)

Expenditures

Actual expenditures for the year totaled $11.8 million as compared to a budget of $15.8 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 $1.6 million, resulting in a budget variance of $3.0 million. Similar timing issues existed for the Moyer grant program.

Other notable expenditure budget variances included a $314,000 positive budget variance in administration expenses primarily due to savings in professional services and salaries and benefits, and a $130,000 positive budget variance in engineering and compliance primarily from salaries and benefits savings from unfilled positions during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The FY 2012–13 new budget was prepared with the assumption that operating revenues would be about 1% higher than the previous year. No increases to the District's fees were made based on the consumer price index (CPI), as historically been done in prior years. No new staff positions were added. Fixed asset expenditures are budgeted higher than prior years to include workstation upgrades and building improvements at the District's Monterey headquarters.

For non-operating budget revenues (grant program revenues), the FY 2012–13 budget is higher by about $2.3 million primarily due to the addition of about $2.5 million in offsite mitigation fees in the new fiscal year.

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

- Potential losses in permit fee revenues from business closures.
- Expected increases to CalPERS retirement costs.
- 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.
- Potential loss in Federal section 103 and 105 grant funds, depending on possible congressional budget sequestration.

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 POSITION
JUNE 30, 2012

ASSETS:	
Cash and investments	$ 16,765,972
Receivables, net	362,500
Receivables from other governments	638,737
Prepaid expenses	12,480
Capital assets, net:	
Nondepreciable	271,707
Depreciable	924,059
Total assets	18,975,455
LIABILITIES:	
Accounts payable	579,901
Accrued liabilities	114,421
Noncurrent liabilities:	
Due within one year	162,581
Due in more than one year	475,767
Total liabilities	1,332,670
NET POSITION:	
Net investment in capital assets	1,195,766
Restricted	8,279,664
Unrestricted	8,167,355
Total net position	$ 17,642,785

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net position
FUNCTIONS/PROGRAMS				
Governmental activities:				
Administration	$ 1,796,445	$ 721	$ –	$ (1,795,724)
Engineering/Compliance	2,344,273	3,593,441	–	1,249,168
Air monitoring	725,054	93,411	112,598	(519,045)
Planning and grants	6,760,188	–	639,426	(6,120,762)
Interest on long-term debt	101	–	–	(101)
Total governmental activities	$ 11,626,061	$ 3,687,573	$ 752,024	$ (7,186,464)
General revenues:				
DMV surcharges				2,501,681
AB 923				1,250,841
Federal grants				291,475
City/County contributions				169,990
Investment income				144,404
Loss on capital asset				(3,734)
Other				400,556
Total general revenues				4,755,213
CHANGE IN NET POSITION				(2,431,251)
NET POSITION, BEGINNING OF YEAR				20,074,036
NET POSITION, END OF YEAR				$ 17,642,785

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
BALANCE SHEET – GENERAL FUND
JUNE 30, 2012

ASSETS	
Cash and investments	$ 16,765,972
Receivables, net	362,500
Receivables from other governments	638,737
Prepaid expenses	12,480
Loan receivable, net	–
Total assets	$ 17,779,689
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	$ 579,901
Accrued liabilities	114,421
Total liabilities	694,322
Fund Balances:	
Nonspendable	19,125
Restricted:	
AB2766	3,973,532
Moyer	891,764
School bus	195,688
General grants	122,733
AB923	3,095,947
Committed:	
Economic uncertainties	1,565,000
Building and facilities	938,550
Vehicle and equipment replacement	100,000
OPEB funding	860,000
Unassigned	5,323,028
Total fund balances	17,085,367
Total liabilities and fund balances	$ 17,779,689

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

Fund balance – General Fund	$ 17,085,367
Amounts reported in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	1,195,766
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(638,348)
NET POSITION	$ 17,642,785

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, 2012

REVENUES:	
DMV surcharges	$ 3,752,522
Grants	1,043,499
Licenses and permits	2,824,660
Fines and fees	760,834
Investment earnings	144,404
Other revenues	672,625
Total revenues	9,198,544
EXPENDITURES:	
Current:	
Administration	1,655,080
Engineering/Compliance	2,257,462
Air monitoring	640,437
Planning and grants	6,759,580
Debt service:	
Principal	5,504
Interest and other charges	101
Capital outlay	489,364
Total expenditures	11,807,528
NET CHANGE IN FUND BALANCE	(2,608,984)
FUND BALANCE, BEGINNING OF YEAR	19,694,351
FUND BALANCE, END OF YEAR	$ 17,085,367

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE –
GENERAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

NET CHANGE IN FUND BALANCE	$ (2,608,984)
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	489,364
Current year depreciation	(197,700)
Loss on disposal of asset	(3,734)
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 position. In the current period these amounts are:	
Principal payments on long-term debt	5,504
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	(30,255)
OPEB costs	(85,446)
CHANGE IN NET POSITION	$ (2,431,251)

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 position 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 are 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, 2012, 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 Position – The Statement of Net Position presents the District's assets and liabilities, with the difference reported as net position. Net position is reported in three categories.

- *Net investment in capital assets* 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* results when constraints placed on net position use is either externally imposed or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has 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, 2012, the amount of these funds was $8,279,664.

Fund Balances – Fund balance classifications are 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.

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 28, 2012, which is the date the financial statements were available to be issued.

Effects of New Pronouncements – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District implemented this Statement in fiscal year 2012. There was no significant effect on the financial statements other than renaming net assets to net position.

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 $16,219,266 at June 30, 2012 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, 2012, the carrying amount of the District's bank deposits was $841,360. 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. Energy Alternative Solutions is in default on the loan and an allowance for doubtful accounts in the amount of the entire loan has been established.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance 6/30/11	Additions	Retirements & Adjustments	Balance 6/30/12
Capital assets not being depreciated –				
Land	$ 271,707	$ –	$ –	$ 271,707
Capital assets being depreciated:				
Buildings and improvements	3,522,723	223,941	–	3,746,664
Office furniture and equipment	245,165	–	–	245,165
Equipment	451,449	216,808	(37,244)	631,013
Vehicles	527,445	48,615	(37,451)	538,609
Total capital assets being depreciated	4,746,782	489,364	(74,695)	5,161,451

NOTE 4. CAPITAL ASSETS (Continued)

	Balance 6/30/11	Additions	Retirements & Adjustments	Balance 6/30/12
Less accumulated depreciation for:				
Buildings and improvements	3,239,266	95,297	–	3,334,563
Office furniture and equipment	166,659	17,290	–	183,949
Equipment	316,688	34,258	(35,382)	315,564
Vehicles	388,040	50,855	(35,579)	403,316
Total accumulated depreciation	4,110,653	197,700	(70,961)	4,237,392
Net capital assets being depreciated – net	636,129	291,664	(3,734)	924,059
Total capital assets – net	$ 907,836	$ 291,664	$ (3,734)	$ 1,195,766

Depreciation expense for the year ending June 30, 2012 was charged to functions/programs as follows:

Administration	$ 105,946
Engineering/compliance	25,576
Air monitoring	66,178
Total depreciation expense	$ 197,700

NOTE 5. LONG-TERM DEBT

Long-term debt balances and transactions for the year ended June 30, 2012 are as follows:

	Balance 6/30/11	Additions	Retirements	Balance 6/30/12	Due Within One Year
Capital lease obligations	$ 5,504	$ –	$ 5,504	$ –	$ –
Other liabilities:					
Compensated absences	365,033	30,255	–	395,288	162,581
Other post employment benefits	157,614	85,446	–	243,060	–
Total	$ 528,151	$ 115,701	$ 5,504	$ 638,348	$ 162,581

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

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, 2012, the employer contribution rate was 12.721%. The District's contributions to CalPERS for the years ending June 30, 2012, 2011 and 2010 were $582,992, $570,009 and $585,193, 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 ($89.60 per month for fiscal year 2012). 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, 2012, the cost of funding the Plan for the year was $13,554.

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)	$ 99,139
Interest on net OPEB obligation	6,305
Adjustment to ARC	(6,444)
Annual OPEB cost expense	99,000
Contributions made	(13,554)
Increase in net OPEB obligation	85,446
Net OPEB obligation, beginning of year	157,614
Net OPEB obligation, end of year	$ 243,060

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
2012	$ 99,000	$ 13,554	13%	$ 243,060

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 $1,012,769, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $3,093,960, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 32.7%.

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, 2012, was twenty-seven 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. Settled claims from these risks have not exceeded commercial coverage for the past three fiscal years.

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, 2012 was $12,492. 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, 2012 was $16,440; 2) A mail system lease expires July 2012, the monthly lease is $384, total lease expense for the year ended June 30, 2012 was $5,376.

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

Year Ending June 30	Lease Payments	Sub-Lease Receipts
2013	$ 23,070	$ 2,400
2014	5,480	–
Total	$ 28,550	$ 2,400

NOTE 11. SUBSEQUENT EVENTS

Subsequent to year end the District settled a legal issue with a grantee whereby they recovered $20,000 from a $639,000 grant award that was not used as specified per the grant agreement.

NOTE 12. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items were previously reported as assets and liabilities. This Statement is effective for financial statements for periods beginning after December 15, 2012 (the District's June 30, 2014 fiscal year end). Earlier application is encouraged. The District has no plan for early implementation of this Statement. At this time the District is not certain of the effect the adoption of Statement 65 will have on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Note disclosures and required supplementary information requirements about pensions are also addressed.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

This Statement is effective for fiscal years beginning after June 15, 2014 (the District's June 30, 2015 fiscal year end). Earlier application is encouraged. The District has no plan for early implementation of this Statement. At this time the District is not certain of the effect the adoption of Statement 68 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, 2012

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%
2012	7/1/2009	$ –	$ 1,012,769	$ 1,012,769	0.0%	$ 3,093,960	32.7%

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
DMV Surcharges	$ 3,615,000	$ 3,615,000	$ 3,752,522	$ 137,522
Grants	1,211,000	1,250,300	1,043,499	(206,801)
License and permits	2,845,090	2,845,090	2,824,660	(20,430)
Fines and fees	628,300	628,300	760,834	132,534
Investment earnings	134,500	135,000	144,404	9,404
Other revenues	614,840	738,861	672,625	(66,236)
Total revenues	9,048,730	9,212,551	9,198,544	(14,007)
EXPENDITURES:				
Current:				
Administration	1,897,396	1,968,813	1,655,080	313,733
Engineering/ Compliance	2,386,907	2,386,907	2,257,462	129,445
Air monitoring	706,276	706,276	640,437	65,839
Planning and grants	8,115,237	10,151,191	6,759,580	3,391,611
Debt service:				
Principal	9,000	9,000	5,504	3,496
Interest and other charges	500	500	101	399
Capital outlay	427,203	592,113	489,364	102,749
Total expenditures	13,542,519	15,814,800	11,807,528	4,007,272
NET CHANGE IN FUND BALANCE	$ (4,493,789)	$ (6,602,249)	$ (2,608,984)	$ 3,993,265

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.