MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2014

AND INDEPENDENT AUDITORS' REPORT

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

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HAYASHI | WAYLAND

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the ***Monterey Bay Unified Air Pollution Control District***, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the *Monterey Bay Unified Air Pollution Control District*, as of June 30, 2014, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9, 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.

December 17, 2014

Hayashi Wayland

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. 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 $16.0 million (net position). Of this amount, $8.1 million (restricted net position) are legally restricted for grant programs and other purposes.
- The District's total net position decreased by $1.7 million from the prior year.
- As of the close of the fiscal year, the District's governmental funds reported combined ending fund balances of $15.5 million, a decrease of $1.8 million 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.

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 10 and 11.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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, Moyer Grant Fund, and the General 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 12 through 14 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 15 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

	2014	2013	Change
Current and other assets	$ 16,711,000	$ 17,921,000	$ (1,210,000)
Capital assets	1,118,000	1,097,000	21,000
Total assets	$ 17,829,000	$ 19,018,000	$ (1,189,000)
Current and other liabilities	$ 1,164,000	$ 562,000	$ 602,000
Long-term liabilities	656,000	749,000	(93,000)
Total liabilities	$ 1,820,000	$ 1,311,000	$ 509,000
Net investment in capital assets	$ 1,118,000	$ 1,097,000	$ 21,000
Restricted	8,080,000	8,501,000	(421,000)
Unrestricted	6,811,000	8,109,000	(1,298,000)
Total net position	$ 16,009,000	$ 17,707,000	$ (1,698,000)

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, 2014, the District's assets exceeded its liabilities by $16.0 million.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

Approximately 93% of the District's current and other assets consist of cash and investments.

Approximately $8.1 million (50% of total net position) are restricted for grants and other purposes. Of the $6.8 million unrestricted balance, $3.4 million has been designated for special purposes including reserves for economic uncertainties, building and facilities, funding the District's Other Post Employment Benefit (OPEB) liability, and vehicle and equipment replacements. A breakdown of the designated reserves is shown on page 12.

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

	2014	2013	Change
Revenues:			
Program Revenues:			
Charges for services	$ 3,698,000	$ 3,726,000	$ (28,000)
Operating grants and contributions	1,214,000	750,000	464,000
General Revenues:			
DMV surcharges	2,511,000	2,423,000	88,000
AB 923	1,255,000	1,211,000	44,000
Federal and State grants	464,000	314,000	150,000
City/County contributions	171,000	171,000	–
Investment income	80,000	65,000	15,000
Loss on capital asset	(10,000)	(2,000)	(8,000)
Contributed fixed asset	–	9,000	(9,000)
Other	462,000	379,000	83,000
Total Revenues	9,845,000	9,046,000	799,000
Expenses:			
Administration	2,498,000	1,772,000	726,000
Engineering/Compliance	2,638,000	2,385,000	253,000
Air monitoring	765,000	723,000	42,000
Planning and grants	5,642,000	4,102,000	1,540,000
Total Expenses	11,543,000	8,982,000	2,561,000
Change in net position	(1,698,000)	64,000	(1,762,000)
Net position, beginning of year	17,707,000	17,643,000	64,000
Net position, end of year	$ 16,009,000	$ 17,707,000	$ (1,698,000)

Revenues from fees, fines and charges for services totaled approximately $3.698 million, which is $28,000 lower than the previous year's total. Although revenues from penalties and fines were about $39,000 higher than the previous year, other revenues were lower such as asbestos fees which were about $96,000 less. Other revenue categories with significant year-to-year changes include new permit and filing fees down by about $48,000 and Title V fees down about $22,000.

Operating grant revenues in FY 2013-14 were higher by $464,000 as compared to the previous year primarily due to higher Moyer grants received. Federal and State grants increased by about $150,000 due to the receipt of State grant funds for a new electric vehicle readiness program in the District's Tri-County area.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

Revenues from State DMV surcharges (including AB 923 funds) were about 3.6% higher than the previous fiscal year, or about $133,000 higher in total.

Investment income was higher by about 24% as compared to the previous year, primarily due to receiving about $9,800 in investment recoveries related to losses incurred in FY 2009-10.

Expenditures for the year totaled $11.5 million. Administration Division expenses were up by about $726,000. This is primarily due to the District payoff of its CalPERS retirement side fund of almost $810,000. The CalPERS side fund payoff reduced the District's retirement liability and the corresponding employer rate for future retirement contributions.

Engineering and Compliance Divisions' expenditures were up by about $253,000. Salaries and benefits had the largest year-to-year increase due to the addition of the Engineering and Compliance Manager position and expenses related to severance pay for terminated employees.

Air Monitoring expenses were up by about $42,000 as compared to the previous year. The categories with the highest increases were salaries and benefits and expenses related to newer air monitoring sites.

Planning Division expenses were higher by about $1.5 million, primarily due to larger grant payments for the Carl Moyer and AB923 grant programs in FY 2013-14. Planning professional services were also up significantly due to payments to subcontractors for the electric vehicle readiness program. These expenses were offset by State grant funds for this program, as noted on page 5 of this report.

Overall, the District's net position decreased by $1,698,000 bringing the net position to $16.0 million as of June 30, 2014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The book value of the District's investment in capital assets was $1,117,720 (net of accumulated depreciation of $4.5 million) as of June 30, 2014. This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, computer and office equipment, and vehicles.

In FY 2013–14, there was a $20,430 increase in capital assets consisting of:

Capital purchases	$ 175,739
Assets retired	(67,838)
Depreciation, net of retired assets	(87,471)
Total	$ 20,430

Capital purchases for the year included a vehicle for $28,914, an air monitoring trailer for $18,324, air monitoring equipment for $12,848, computer software and equipment for $84,182 and building improvements for $31,471.

Additional information regarding the capital assets can be found in Note 4 in the "Notes to Basic Financial Statements," page 19.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt Administration

At June 30, 2014, the District had total debt of $655,741, consisting of Compensated Absences and Other Post Employment Benefits (OPEB) liabilities.

Compensated Absences debt in FY 2013-14 decreased by $27,219. OPEB liabilities decreased by $66,195, largely due to a $150,000 deposit to the District's Other Post Employment Benefits (OPEB) trust account to fund future health benefits for retirees.

Details of the debt balances are found on page 20, 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, 2014 was $15.5 million, a decrease of approximately $1.8 million from the prior year. The decrease was primarily due to the net of the following factors:

- Decrease to the General Fund of $1.4 million. Significant expenditures included: a) $810,000 for payoff of the District's CalPERS retirement side fund. b) $150,000 for an initial deposit to the District's OPEB liability trust account which was established in May 2013 to help fund the District's obligations for future retiree health benefits. c) $122,750 in Woodstove Changeout grants and d) $100,000 in grants to fund electric vehicles for other public agencies.

- Decrease to the AB2766 Grant program funds of approximately $227,000 (net of administrative expenses). DMV $4.00 fees received from the State totaled $2.5 million and grant expenditures were about $1.6 million.

- Increase to the AB923 Grant program funds of approximately $102,000 (net of administrative expenses). DMV $2.00 fees received from the State totaled $1.25 million. AB923 grant expenditures were about $1.2 million.

- Decrease to the Moyer Grant program funds of approximately $213,000 (net of administrative expenses). Grant funds received from the State totaled $1,113,978 and grant expenditures were about $1,349,360, including grants funded from previous year's Moyer grant receipts.

- Decrease to the School Bus Fund of approximately $180,000 due to final grant reimbursements of $140,000 and about $37,000 due back to the State for this program.

- Increase to the General Grant fund of $97,000. The District continues to receive 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. No grant reimbursements were made during the fiscal year.

BUDGETARY HIGHLIGHTS

Revenues

The actual revenues total of $9.8 million compared favorably to a final budget of $9.2 million. The categories with the largest favorable budget variances were DMV Surcharges that were about $300,000 over budget and Carl Moyer Program grants that were nearly $189,000 over budget.

Permit fees had a $131,000 positive variance and fines and fees had nearly a $25,000 positive variance. In the fines and fees categories, asbestos program revenues were lower than budget by about $52,000. Civil penalties, which were largely from asbestos cases, had a positive variance of about $63,000. Under the "Other Revenues" category, revenues received for the contract providing smoke management services to Fort Ord were higher than budget by about $60,000.

Expenditures

Actual expenditures for the year totaled $11.7 million as compared to a budget of $16.0 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, $4.0 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 $1.7 million, resulting in a budget variance of $2.3 million. Similar timing issues existed for the AB923 grant program and for grants budgeted to replace agricultural engines.

Other notable expenditure budget variances included an $89,000 positive variance in capital outlays. The variance was primarily due to the building remodel project expenditures below budget by about $65,000 and information system purchases below budget by about $15,000. In addition, there was a $207,000 positive budget variance in legal and professional services and $88,000 positive budget variance in salaries and benefits due to unfilled positions. Mileage and travel were also lower than budget by about $53,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The FY 2014–15 new budget was prepared with the assumption that operating revenues would be about 3% lower than the previous year, despite increases to the District's fees. Fees had not been increased since FY 2011-12 and therefore the District contracted with Matrix Consulting Group for a comprehensive fee study. Based on the results of the study, the District increased permit and Title V fees. To offset the lower revenues in the new year's budget, two vacant positions were eliminated and other operating expenditures were reduced by 20%.

In FY 2014-15, the General Fund budget is projected to have a $653,000 net deficit, largely due to factors such as: a) Reduction in major source permit fees, b) Project management and architectural services expenditures for the District's building remodel project, c) Implementation of a new permit database management system and a new finance system, and d) Increases to salaries and benefits based on labor and employment agreements. The projected budget deficit will be covered by the use of General Fund reserves.

For non-operating budget revenues (grant program revenues), the FY 2014-15 budget is lower by about $190,000 primarily due to a projected decrease in Moyer grant revenues. Expenditures are projected to be lower in FY 2014-15 due to the sunset of the Lower Emission School Bus program and also because the prior year non-operating budget included the $810,000 CalPERS side fund payoff.

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

The District continues its efforts in streamlining and efficiency improvements to prepare for future fiscal challenges, such as expected increases to CalPERS retirement costs or loss of State or Federal revenues. 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, 2014

ASSETS:	
Cash and investments	$ 15,575,222
Receivables, net	356,844
Interest receivable	17,218
DMV fees receivable	656,184
Other receivables	92,570
Prepaid expenses	13,349
Capital assets, net:	
Nondepreciable	271,707
Depreciable	846,013
Total assets	17,829,107
LIABILITIES:	
Accounts payable	969,604
Accrued liabilities	194,873
Noncurrent liabilities:	
Due within one year	172,185
Due in more than one year	483,556
Total liabilities	1,820,218
NET POSITION:	
Net investment in capital assets	1,117,720
Restricted	8,079,946
Unrestricted	6,811,223
Total net position	$ 16,008,889

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net position
FUNCTIONS/PROGRAMS				
Governmental activities:				
Administration	$ 2,497,433	$ 419	$ –	$ (2,497,014)
Engineering/Compliance	2,637,602	3,618,788	–	981,186
Air monitoring	765,314	78,730	26,900	(659,684)
Planning and grants	5,642,235	–	1,186,691	(4,455,544)
Total governmental activities	$ 11,542,584	$ 3,697,937	$ 1,213,591	$ (6,631,056)
General revenues:				
DMV surcharges				2,510,885
AB 923				1,255,316
Federal grants				464,122
City/County contributions				171,312
Investment income				80,223
Loss on capital asset				(10,016)
Other				461,523
Total general revenues				4,933,365
CHANGE IN NET POSITION				(1,697,691)
NET POSITION, BEGINNING OF YEAR				17,706,580
NET POSITION, END OF YEAR				$ 16,008,889

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT
BALANCE SHEET – GENERAL FUND
JUNE 30, 2014

ASSETS	
Cash and investments	$ 15,575,222
Receivables, net	356,844
Interest receivable	17,218
DMV fees receivable	656,184
Other receivables	92,570
Prepaid expenses	13,349
Total assets	$ 16,711,387
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	
Liabilities:	
Accounts payable	$ 969,604
Accrued liabilities	194,873
Total liabilities	1,164,477
Deferred inflows –	
Deferred judgment revenue	30,000
Fund Balances:	
Nonspendable	20,147
Restricted:	
AB2766	3,265,656
Moyer	353,802
School bus	10
General grants	334,269
AB923	4,126,209
Committed:	
Economic uncertainties	1,669,500
Building and facilities	938,550
Vehicle and equipment replacement	100,000
OPEB funding	710,000
Unassigned	3,998,767
Total fund balances	15,516,910
Total liabilities and fund balances	$ 16,711,387

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

Fund balance – General Fund	$ 15,516,910
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	1,117,720
Other assets are not available to pay for current period expenditures and, therefore, are not reported in the funds	30,000
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(655,741)
NET POSITION	$ 16,008,889

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, 2014

REVENUES:	
DMV surcharges	$ 3,766,201
Grants	1,677,713
Licenses and permits	2,944,787
Fines and fees	659,001
Investment earnings	80,223
Other revenues	711,984
Total revenues	9,839,909
EXPENDITURES:	
Current:	
Administration	2,467,059
Engineering/Compliance	2,696,310
Air monitoring	672,586
Planning and grants	5,654,750
Capital outlay	175,739
Total expenditures	11,666,444
NET CHANGE IN FUND BALANCE	(1,826,535)
FUND BALANCE, BEGINNING OF YEAR	17,343,445
FUND BALANCE, END OF YEAR	$ 15,516,910

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, 2014

NET CHANGE IN FUND BALANCE	$ (1,826,535)
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 these amounts are:	
Capital outlay	175,739
Current year depreciation	(145,293)
Loss on disposal of asset	(10,016)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	15,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds. In the current period these amounts are:	
Compensated absences	27,219
OPEB costs	66,195
CHANGE IN NET POSITION	$ (1,697,691)

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.

Receivables and Deferred Inflows of Resources – Receivables are amounts due representing revenues earned or accrued in the current period. Receivables which have not been remitted within 60 days subsequent to year end are off set by deferred inflows of resources, and accordingly have not been recorded as revenue in the governmental fund.

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance is based on an assessment of the current status of individual accounts. At June 30, 2014, the allowance was estimated to be $10,469.

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 300 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.

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, 2014, the amount of these funds was $8,079,946.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 December 17, 2014, 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 $15,524,170 at June 30, 2014 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 – Custodial credit risk is the risk that in the event of a bank failure the deposits may not be returned. The District has a deposit policy that complies with California Government Code Section commencing with 53630 (Public Deposits). As of June 30, 2014, $147,643 of the District's bank balance of $397,643 was exposed to custodial credit risk as uninsured and collateralized by the pledging bank's trust department not in the District's name.

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, 2014 was as follows:

	Balance 6/30/13	Additions	Retirements & Adjustments	Balance 6/30/14
Capital assets not being depreciated –				
Land	$ 271,707	$ –	$ –	$ 271,707
Capital assets being depreciated:				
Buildings and improvements	3,770,500	31,471	(19,926)	3,782,045
Office furniture and equipment	274,457	84,182	–	358,639
Equipment	580,580	12,848	(26,372)	567,056
Vehicles	568,005	47,238	(21,540)	593,703
Total capital assets being depreciated	5,193,542	175,739	(67,838)	5,301,443
Less accumulated depreciation for:				
Buildings and improvements	3,363,896	30,593	(12,305)	3,382,184
Office furniture and equipment	181,585	25,361	–	206,946
Equipment	367,131	53,864	(25,053)	395,942
Vehicles	455,347	35,475	(20,464)	470,358
Total accumulated depreciation	4,367,959	145,293	(57,822)	(4,455,430)
Net capital assets being depreciated – net	825,583	30,446	(10,016)	846,013
Total capital assets – net	$ 1,097,290	$ 30,446	$ (10,016)	$ 1,117,720

Depreciation expense for the year ending June 30, 2014 was charged to functions/programs as follows:

Administration	$ 37,359
Engineering/compliance	14,205
Air monitoring	93,729
Total depreciation expense	$ 145,293

NOTE 5. LONG-TERM DEBT

Long-term debt balances and transactions for the year ended June 30, 2013 are as follows:

	Balance 6/30/13	Additions	Retirements	Balance 6/30/14	Due Within One Year
Other liabilities:					
Compensated absences	$ 425,762	$ –	$ (27,219)	$ 398,543	$ 172,185
Other post employment benefits	323,393	83,805	(150,000)	257,198	–
Total	$ 749,155	$ 83,805	$ (177,219)	$ 655,741	$ 172,185

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 relationship 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.

NOTE 7. PENSION PLAN (Continued)

Funding Policy – Participants are required to contribute 7% of their annual covered salary. The District paid 100% of the 7% until April of 2014 when employees began paying 1% and the District 6%. 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, 2014, the employer contribution rate was 10.781%. The District's contributions to CalPERS for the years ending June 30, 2014, 2013 and 2012 were $574,848, $617,421 and $582,992, respectively, equal to the required contributions for each year.

On September 12, 2012, the California Public Employees' Pension Reform Act of 2013 (PEPRA) was signed into law. PEPRA took effect January 1, 2013 and affects new CalPERS members on or after January 1, 2013 through provisions affecting benefit formulas, the definition of what comprises pensionable earnings, limits on pensionable earnings, and other matters. The new law also calls for new members to pay 50 percent of the normal cost of benefits. The District has three employees subject to the new PEPRA formulas, the contribution rate is 6.25%, the contributions paid for the years ending June 30, 2014 and 2013 were $6,251 and $855, respectively.

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 ($107.10 per month for fiscal year 2014). The retiree is responsible for any premium costs in excess of the District's contribution. The District began partially prefunding its OPEB Liability in fiscal year ending June 30, 2014 by contributing more than the required ARC.

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.

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

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)	$ 100,413
Interest on net OPEB obligation	12,936
Adjustment to ARC	(14,140)
Annual OPEB cost expense	99,209
Contributions made	(165,404)
Decrease in net OPEB obligation	(66,195)
Net OPEB obligation, beginning of year	323,393
Net OPEB obligation, end of year	$ 257,198

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
2012	$ 99,000	$ 13,554	13%	$ 243,060
2013	$ 92,267	$ 11,934	12%	$ 323,393
2014	$ 99,209	$ 165,404	167%	$ 257,198

Funding Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $1,163,619, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $3,451,289, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 33.7%.

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.

The District established a Public Agency Retirement Services (PARS) Post-Retirement Health Care Plan Trust on May 15, 2013 in order to prefund the District's OPEB liability. The assets of the Trust are held under a Trust Agreement with Union Bank of California acting as Trustee. Any contributions to the Plan are deemed Plan assets and can only be used for the benefit of eligible employees. The value of the assets under the Trust at June 30, 2014 were $159,178. The value of these assets will be taken into account in the next actuarial valuation.

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

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

In the July 1, 2012 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. The remaining amortization period at June 30, 2014, was twenty-six 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.

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 renewed a lease for office space with the City of Watsonville on January 4, 2013, which expires on January 4, 2016. The monthly rent is $1,365. The total lease expense for the year ended June 30, 2014 was $16,508. 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 $515 a month through December 31, 2014.

NOTE 10. OPERATING LEASES (Continued)

The District leases certain office equipment under noncancelable operating leases as follows: 1) A copy machine lease expires in August 2016, the monthly lease is $1,120, total lease expense for the year ended June 30, 2014 was $14,440; 2) A mail system lease expires August 2016, the monthly lease is $307, total lease expense for the year ended June 30, 2014 was $3,418.

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

Year Ending June 30	Lease Payments	Sub-Lease Receipts
2015	$ 32,265	$ 3,090
2016	23,947	–
2017	12,868	–
2018	2,987	–
Total	$ 72,067	$ 3,090

NOTE 11. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED

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, 2014

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
2012	7/1/2009	$ –	$ 1,012,769	$ 1,012,769	0.0%	$ 3,093,960	32.7%
2013	7/1/2012	$ –	$ 1,085,419	$ 1,085,419	0.0%	$ 3,169,637	34.2%
2014	7/1/2012	$ –	$ 1,163,619	$ 1,163,619	0.0%	$ 3,451,289	33.7%

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
DMV Surcharges	$ 3,465,000	$ 3,465,000	$ 3,766,201	$ 301,201
Grants	1,272,500	1,422,500	1,677,713	255,213
License and permits	2,813,979	2,813,979	2,944,787	130,808
Fines and fees	634,400	634,400	659,001	24,601
Investment earnings	81,725	81,725	80,223	(1,502)
Other revenues	961,621	832,621	711,984	(120,637)
Total revenues	9,229,225	9,250,225	9,839,909	589,684
EXPENDITURES:				
Current:				
Administration	2,767,676	2,606,735	2,467,059	139,676
Engineering/ Compliance	2,780,738	2,800,567	2,696,310	104,257
Air monitoring	712,507	732,296	672,586	59,710
Planning and grants	8,498,304	9,552,034	5,654,750	3,897,284
Capital outlay	73,000	264,308	175,739	88,569
Total expenditures	14,832,225	15,955,940	11,666,444	4,289,496
NET CHANGE IN FUND BALANCE	$ (5,603,000)	$ (6,705,715)	$ (1,826,535)	$ 4,879,180

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.