

Monterey Bay Unified Air Pollution Control District

Monterey, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2016

Monterey Bay Unified Air Pollution Control District dba Monterey Bay Air Resources District

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the 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 each major fund of the Monterey Bay Unified Air Pollution Control District, California (District) as of and for the year ended June 30, 2016, 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.

Auditors' 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. 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.

To the Board of Directors
of the Monterey Bay Unified Air Pollution Control District
Monterey, California
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 each major fund of the District as of June 30, 2016, 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, budgetary comparison information, pension information, and schedule of funding progress - OPEB on pages 3-9 and 44-46 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Badawi & Associates
Certified Public Accountants
Oakland, California
December 2, 2016

**MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT dba
MONTEREY BAY AIR RESOURCES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

Our discussion and analysis of the Monterey Bay Unified Air Pollution Control District's (the District) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2016. 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 \$11.3 million (net position). Of this amount, \$9.3 million (restricted net position) are legally restricted for grant programs and other purposes.
- The District's total net position increased by \$291,000 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 \$598,000 in comparison to the prior year. The major factors contributing to this increase 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 deferred outflows of resources and liabilities, and deferred inflows of resources with the difference 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 14 and 15.

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 18 through 21 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 24 to 42 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Current and other assets	\$ 15,493,000	\$ 16,412,000	\$ (919,000)
Capital assets	<u>2,247,000</u>	<u>1,263,000</u>	<u>984,000</u>
Total assets	<u>17,740,000</u>	<u>17,675,000</u>	<u>65,000</u>
Deferred outflow of resources	<u>537,000</u>	<u>565,000</u>	<u>(28,000)</u>
Current and other liabilities	605,000	917,000	(312,000)
Long-term liabilities	<u>5,044,000</u>	<u>4,803,000</u>	<u>241,000</u>
Total liabilities	<u>5,649,000</u>	<u>5,720,000</u>	<u>(71,000)</u>
Deferred inflow of resources	<u>1,285,000</u>	<u>1,468,000</u>	<u>(183,000)</u>
Net investment in capital assets	2,247,000	1,263,000	984,000
Restricted	9,286,000	8,681,000	605,000
Unrestricted	<u>(190,000)</u>	<u>1,108,000</u>	<u>(1,298,000)</u>
Total net position	<u>\$ 11,343,000</u>	<u>\$ 11,052,000</u>	<u>\$ 291,000</u>

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, 2016, the District's assets exceeded its liabilities by \$11.3 million.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

Approximately \$9.3 million (82% of total net position) are restricted for grants and other purposes. The unrestricted portion of the District's net position decreased by about \$1.3 million from the previous year. This decrease is primarily due to the increase in capital assets as a result of a building remodel project completed in FY 2015-16 and also due to the increase in pension liabilities.

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 3,592,000	\$ 3,538,000	\$ 54,000
Operating grants and contributions	1,350,000	1,034,000	316,000
General Revenues:			
DMV surcharges	2,623,000	2,535,000	88,000
AB 923	1,311,000	1,267,000	44,000
City/County contributions	234,000	204,000	30,000
Investment income	123,000	79,000	44,000
Other	<u>647,000</u>	<u>399,000</u>	<u>248,000</u>
Total Revenues	<u>9,880,000</u>	<u>9,056,000</u>	<u>824,000</u>
Expenses:			
Administration	1,436,000	1,750,000	(314,000)
Engineering/Compliance	2,848,000	2,293,000	555,000
Air monitoring	739,000	770,000	(31,000)
Planning and grants	<u>4,566,000</u>	<u>3,831,000</u>	<u>735,000</u>
Total Expenses	<u>9,589,000</u>	<u>8,644,000</u>	<u>945,000</u>
Change in net position	291,000	412,000	(121,000)
Net position, beginning of year	<u>11,052,000</u>	<u>10,640,000</u>	<u>412,000</u>
Net position, end of year	<u>\$ 11,343,000</u>	<u>\$ 11,052,000</u>	<u>\$ 291,000</u>

For Program Revenues, Charges for Services totaled approximately \$3.6 million, which is \$54,000 higher than the previous year's total. The additional revenues included a 2.7% CPI increase to permit fees. Operating grant revenues in FY 2015-16 were higher by \$316,000 as compared to the previous year primarily due to an increase in Carl Moyer Program grants received. Federal grants were down by about \$48,000 as compared to the previous year.

For General Revenues, DMV and AB923 surcharges increased by about 3.5% over the previous year. City and County contributions were up by \$30,000 due to an increase to the per capita rates from \$.27 to \$.31. Investment income increased by about \$44,000 due to higher interest rates and larger overall fund balances as compared to the previous year.

The last General Revenue category, "Other" revenues, include CARB Subvention, rental income and off-site mitigation fees from the East Garrison housing development in Marina. Off-site mitigation fees totaled \$331,000 during the 2015-16 fiscal period, an increase of \$194,000. Rental income increased by about \$24,000 due to a new lease with the Association of Monterey Bay Area Governments (AMBAG) for office space at the District's headquarters.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Expenses for the year totaled \$9.6 million. Administration Division expenses were down in total by about \$314,000 primarily due to a decrease in professional services, supplies and sponsorships.

Engineering and Compliance Divisions' expenses were higher than the previous year by about \$560,000. The biggest increases were in Compliance Divisions' salaries, benefits, with pension expenses higher for both divisions.

Air Monitoring expenses decreased by about \$31,000 primarily due to a reduction of one air monitoring specialist due to retirement. Planning Division expenses were higher by about \$735,000, primarily due to higher grant expenditures for each of the three major grant programs: AB2766, AB923, and the Carl Moyer program. Planning professional services included about \$123,000 in payments to subcontractors for the electric vehicle readiness program. These expenses were offset by State grant funds for this program.

Overall, the District's net position increased by \$291,000 bringing the net position to \$11.3 million as of June 30, 2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The book value of the District's investment in capital assets was \$2,247,000 (net of accumulated depreciation of \$4.5 million) as of June 30, 2016. This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, computer and office equipment, and vehicles.

In FY 2015-16, there was a \$984,000 net increase in capital assets consisting of:

Capital purchases	\$1,160,000
Assets retired	(205,000)
Depreciation, net of retired assets	<u>29,000</u>
Total	<u>\$ 984,000</u>

Capital purchases for the year included \$1,024,000 for the 2nd floor building remodel project, \$49,000 for the new permit management database, \$62,000 for vehicles, and \$19,000 for air monitoring equipment. The building remodel project improved workstations and lighting and provided space to lease out to another governmental agency, the Association of Monterey Bay Area Governments (AMBAG).

Additional information regarding the capital assets can be found in Note 3 in the "Notes to Basic Financial Statements," pages 31 - 32.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long Term Liabilities

At June 30, 2016, the District had total long term liabilities of \$5,044,000, consisting of Pension Liability, Compensated Absences (accrued leave) and Other Post-Employment Benefits (OPEB) liabilities.

The District's net pension liability increased \$148,000 to \$4,537,000. Compensated Absences debt increased by \$24,000. OPEB liabilities increased by about \$56,000, net of a \$72,000 to the District's Other Post-Employment Benefits (OPEB) trust account to fund future health benefits for retirees.

Details of the long term liability balances are found on pages 32-40, Note 4, 6, and 7 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, 2016 was \$15 million, a decrease of approximately \$598,000 from the prior year. The decrease was primarily due to the net of the following factors:

- Decrease to the General Fund of approximately \$1.2 million. Significant expenditures included: a) \$1.16 million in fixed assets expenditures including \$1.02 million for the second floor remodeling project, \$62,000 for vehicle replacements, \$49,000 for the permit database system project, and \$19,000 for air monitoring equipment, b) \$72,000 for a deposit to the District's OPEB liability trust account established in May 2013 to help fund the District's obligations for future retiree health benefits, and c) \$62,000 in Woodstove Changeout grants.
- Increase to the AB2766 Grant program funds of approximately \$237,000 (net of administrative expenses). DMV \$4.00 fees received from the State totaled \$2.6 million, an increase of approximately \$88,000 over the previous year. Grant expenditures were about \$1.5 million.
- Decrease to the AB923 Grant program funds of approximately \$131,000 (net of administrative expenses). DMV \$2.00 fees received from the State totaled \$1.3 million, an increase of approximately \$44,000 over the previous year. AB923 grant expenditures were about \$1.4 million.
- Increase to the Moyer Grant program funds of approximately \$280,000 (net of administrative expenses). Grant funds received from the State totaled approximately \$873,000, an increase of \$338,000 due to timing issues of grant project completions. Grant expenditures were about \$533,000.
- Increase to the General Grant fund of \$218,000. Revenues from offsite mitigation fees for the East Garrison Specific Plan Project in Marina (Monterey County) increased by \$194,000 to \$331,000. Grant expenditures were about \$117,000. The grant monies are designated for agricultural pump retrofits and replacements and for purchasing low emission school buses.

BUDGETARY HIGHLIGHTS

Revenues

The actual revenues total of \$9.9 million compared to a final budget of \$9.3 million. The categories with the largest favorable budget variances were:

- DMV Surcharges, about \$249,000 higher than budget
- Off-site mitigation fees, about \$156,000 higher than budget
- Permit fees, about \$101,000 higher than budget
- Carl Moyer grant revenues, about \$91,000 higher than budget
- Civil and late payment penalties, about \$81,000 higher than budget.

The categories with the largest unfavorable budget variances included:

- Grant revenues from the California Energy Commission, \$56,000 under budget
- Miscellaneous revenues, \$25,000 under budget primarily due to lower revenues from the Fort Ord contract with the Department of Toxics Substances and Controls
- EPA grant revenues, \$18,000 under budget.

Expenditures

Actual expenditures for the year totaled \$10.5 million as compared to a budget of \$14.3 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, \$3.8 million was budgeted for AB2766 expenditures for new grants and unspent grants carried forward from previous years. Out of this total, actual payments to grantees totaled \$1.5 million, resulting in a budget variance of \$2.3 million. Similar timing issues existed for the AB923 grant program with a \$547,000 budget variance and the Carl Moyer grant program with a \$352,000 variance.

Other notable expenditure budget variances included a \$272,000 positive variance for legal and professional services, with the largest variances in legal (under budget by \$68,000) and Planning Division professional services (under budget by \$95,000). In addition, there was a \$62,000 positive variance for supplies and a \$61,000 positive variance for employee travel and training.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The FY 2016–17 new budget was prepared with the assumption that operating revenues would be about 3% lower than the previous year. Permit fees are estimated to increase by about \$177,000 due to a 3.2% CPI increase. However, there are no California Energy Commission grants revenues budgeted as its most recent electric vehicle grant agreement with the District ended on June 30, 2016. The budget assumes the same staffing level of 34 employees. Salaries and benefit costs are budgeted with a \$268,000 increase due to higher pension costs and wage increases. Fixed asset purchases of \$567,500 are projected, consisting of \$500,000 for the third floor building remodel project and \$67,500 for vehicle replacements.

In FY 2016–17, the General Fund budget is projected to have a \$731,000 net deficit, largely due to factors such as: a) Third floor building remodel project estimated at \$500,000, b) Increases to salaries and benefits based on labor and employment agreements and c) A \$95,000 deposit to the District's Other Post Employment Benefit (OPEB) trust. The projected budget deficit will be covered by the use of General Fund reserves, including a \$600,000 reserve designated for building and facilities and the use of the reserve set aside for the OPEB liability that has a balance of \$465,000 as of June 30, 2016.

For non-operating budget revenues (grant program revenues), the FY 2016–17 budget is lower by about \$26,000 primarily due to a projected decrease in off-site mitigation fees. Non-operating expenditures are projected to be close to the prior year's budget and includes a total of \$6.3 million for grant expenditures and \$1.2 million for an electric vehicle infrastructure project using AB923 funds.

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

The District continues to maintain a strong financial position and has adequate reserves to help offset potential revenue losses and/or increased expenditures. To prepare for future financial challenges, the District strives each year to make efficiency improvements to lower costs and seeks to maximize its limited revenue sources to cover expenses.

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 Air Resources District, Attn: Administrative Services, 24580 Silver Cloud Court, Monterey, California 93940 or via email at jgiuffre@mbard.org.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Statement of Net Position
June 30, 2016

ASSETS	
Current assets:	
Cash and investments	\$ 13,871,078
Receivables:	
Account receivables, net	447,135
Interest receivables	33,569
Grant receivable	297,695
DMV fees receivable	726,313
Other receivables	96,263
Prepaid expenses	20,833
Total current assets	<u>15,492,886</u>
Noncurrent assets:	
Capital assets:	
Non-depreciable	271,707
Depreciable, net	1,975,270
Total capital assets, net	<u>2,246,977</u>
Total noncurrent assets	<u>2,246,977</u>
Total assets	<u>17,739,863</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred employer pension contributions	440,565
Deferred outflows of resources - pension	96,449
Total deferred outflows of resources	<u>537,014</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	448,774
Unearned revenue	1,200
Compensated absences - due in one year	155,601
Total current liabilities	<u>605,575</u>
Noncurrent liabilities:	
Compensated absences - due in more than one year	257,601
Net OPEB obligation	249,996
Net pension liability	4,536,128
Total noncurrent liabilities	<u>5,043,725</u>
Total liabilities	<u>5,649,300</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pension	1,284,561
Total deferred inflows of resources	<u>1,284,561</u>
NET POSITION	
Investment in capital assets	2,246,977
Restricted	9,285,578
Unrestricted	(189,539)
Net position	<u>\$ 11,343,016</u>

See accompanying Notes to Basic Financial Statements.

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Statement of Activities
For the year ended June 30, 2016

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Total	Governmental Activities
Governmental activities					
Administration	\$ 1,436,011	\$ 71	\$ -	\$ 71	\$ (1,435,940)
Engineering/Compliance	2,848,119	3,517,915	273,788	3,791,703	943,584
Air monitoring	739,274	74,222	130,981	205,203	(534,071)
Planning and grants	4,565,751	-	945,135	945,135	(3,620,616)
Total governmental activities	\$ 9,589,155	\$ 3,592,208	\$ 1,349,904	\$ 4,942,112	(4,647,043)
General Revenues:					
					DMV surcharges 2,622,910
					AB 923 1,311,455
					City/County contribution 234,175
					Investment Income 123,385
					Other 645,960
					Total general revenues 4,937,885
					Change in net position 290,842
					Net position - beginning of year 11,052,174
					Net position - end of year \$ 11,343,016

See accompanying Notes to Basic Financial Statements.

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FUND FINANCIAL STATEMENTS

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Balance Sheet - General Funds
June 30, 2016

	General
ASSETS	
Cash and investments	\$ 13,871,078
Receivables:	
Account receivables, net	447,135
Interest receivables	33,569
Grant receivable	297,695
DMV fees receivable	726,313
Other receivables	96,263
Prepaid items	20,833
Total assets	\$ 15,492,886
Liabilities:	
Accounts payable	\$ 284,265
Accrued liabilities	164,509
Unearned revenue	1,200
Total liabilities	449,974
Fund Balances:	
Nonspendable	27,490
Restricted:	
AB2766	3,675,880
Moyer	668,546
AB923	4,295,664
General grants	645,488
Committed:	
Building and facilities	600,000
OPEB funding	465,000
Unassigned	4,664,844
Total fund balances	15,042,912
Total liabilities, deferred inflows of resources, and fund balances	\$ 15,492,886

See accompanying Notes to Basic Financial Statements.

**Monterey Bay Unified Air Pollution Control District
 dba Monterey Bay Air Resources District
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 For the year ended June 30, 2016**

Fund Balances of General Funds \$ 15,042,912

Amounts reported for governmental activities 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. 2,246,977

Employer contributions for pension paid after the measurement date and prior to the reporting date were recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statement these contributions are deferred. 440,565

In the Government-Wide Financial Statements, certain differences between actuarial amounts and actual results for pension are deferred and amortized over a period of time, however these differences do not impact the Governmental Funds Balance Sheet:

Deferred outflows of resources - pension 96,449
 Deferred inflows of resources - pension (1,284,561)

Long-term liabilities are not due and payable in the current period and therefore they are not reported in the funds.

Compensated absences - due within one year (155,601)
 Compensated absences - due in more than one year (257,601)
 Net OPEB obligation (249,996)
 Net pension liability (4,536,128)

Net Position of Governmental Activities \$ 11,343,016

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2016

	General
REVENUES:	
DMV surcharges	3,934,365
Grants	1,349,904
Licences and permits	3,062,121
Fines and fees	477,784
Investment earnings	123,385
Other revenues	954,429
Total revenues	9,901,988
EXPENDITURES:	
Current	
Administration	1,714,042
Engineering/Compliance	2,541,419
Air monitoring	583,934
Planning and grants	4,500,532
Capital outlay	1,160,312
Total expenditures	10,500,239
Net change in fund balances	(598,251)
FUND BALANCES:	
Beginning of year	15,641,163
End of year	\$ 15,042,912

See accompanying Notes to Basic Financial Statements.

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2016

Net Change in Fund Balances \$ (598,251)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:

Capital outlay	1,160,312
Current year depreciation	(159,570)
Loss on disposal of asset	(16,834)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. (21,990)

Employer contributions for pension paid after the measurement date and prior to the reporting date were recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statement these contributions are deferred. 440,565

Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however pension expense is not recognized in the governmental funds. (433,467)

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	(24,262)
Net OPEB obligation	(55,661)

Change in Net Position of Governmental Activities \$ 290,842

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NOTES TO BASIC FINANCIAL STATEMENTS

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Description of Reporting Entity*

The Monterey Bay Unified Air Pollution Control District (the District) was created in 1974, by a 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.

B. *Basis of Presentation and Accounting/Measurement Focus*

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.

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.

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting/Measurement Focus, Continued

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.

C. 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 the 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.

D. 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 offset 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, 2016, the allowance was estimated to be \$15,465.

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. 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:

Buildings and improvements	15 – 20 Years
Office furniture and equipment	3 – 5 Years
Shop, monitoring and lab equipment	5 – 7 Years
Vehicles	5 Years

F. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

G. 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.

H. 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.

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. 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.

K. 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.

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. 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.

M. New Pronouncements

- GASB Statement No. 72, *Fair Value Measurement and Application*– This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*– The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*– The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. New Pronouncements, Continued

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* - This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

- GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statement No. 67, No. 68, and No. 73* - This Statement addresses certain issues that had been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*. Specifically, this Statement addresses issued regarding (1) the presentation of payroll-related measures in the required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City updated covered employee payroll information in the required supplementary information as part of implementation of this accounting standard.

2. CASH AND INVESTMENTS

The District maintains cash and investments as summarized below:

Cash on hand	\$	503
Deposits with financial institutions		48,013
Total Cash		<u>48,516</u>
Investment		
Investment with Monterey County Investment Pool		13,822,562
Total Cash and Investments	\$	<u><u>13,871,078</u></u>

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

2. CASH AND INVESTMENTS, Continued

A. Cash with Banking Institutions

The carrying amount of the District’s cash deposit with financial institutions was \$48,013. Bank balances before reconciling items were a positive amount of \$445,729 at June 30, 2016. The District has waived the collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities held by the pledging financial institutions in the District’s name.

The California Government Code (Code) requires California banks and savings and loan associates to secure the District’s cash deposit by pledging securities as collateral. The Code states that the collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District’s name.

The market value of pledged securities must equal at least 110% of the District’s cash deposits. California law allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 140% of the District’s total cash deposits.

B. Investment with Monterey County Investment Pool

\$13,822,562 at June 30, 2016 is part of the common investment pool of the Monterey County Investment Pool. 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.

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements, are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments’ fair value measurements at June 30, 2016 are described below:

Investment Type	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Monterey County Investment Pool	\$ 13,822,562	\$ -	\$ 13,822,562	\$ -
Total	\$ 13,822,562	\$ -	\$ 13,822,562	\$ -

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

2. CASH AND INVESTMENTS, Continued

B. Investment with Monterey County Investment Pool, Continued

The County pool includes investments categorized as Level 1 such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets and investments categorized as Level 2 such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices that are derived principally from or corroborated by observable market data by correlation to other means. The District categorized its investments in the pool based on the lowest significant input used to determine the fair market value of the total pool.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Non-depreciable assets:				
Construction in progress	\$ 284,734	\$ 1,072,617	\$ (1,357,351)	\$ -
Land	271,707	-	-	271,707
Total non-depreciable assets	556,441	1,072,617	(1,357,351)	271,707
Depreciable assets:				
			1,160,312	
Buildings and improvements	3,774,431	1,140,251	-	4,914,682
Office furniture and equipment	327,200	223,715	-	550,915
Equipment	567,056	18,888	(71,256)	514,688
Vehicle	547,552	62,192	(133,732)	476,012
Total depreciable assets	5,216,239	1,445,046	(204,988)	6,456,297
Less accumulated depreciation:				
Buildings and improvements	3,411,290	47,394	-	3,458,684
Office furniture and equipment	192,775	41,748	-	234,523
Equipment	451,006	46,672	(67,694)	429,984
Vehicle	454,540	23,756	(120,460)	357,836
Total accumulated depreciation	4,509,611	159,570	(188,154)	4,481,027
Total depreciable assets, net	706,628	1,285,476	(16,834)	1,975,270
Total capital assets	\$ 1,263,069	\$ 2,358,093	\$ (1,374,185)	\$ 2,246,977

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

3. CAPITAL ASSETS, Continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Administration	\$ 61,229
Engineering and Compliance	5,177
Monitoring	93,164
Total depreciation expense	\$ 159,570

4. LONG-TERM LIABILITIES

Long-term liability balances and transactions for the year ended June 30, 2016 are as follows:

	Balance June 30, 2015	Additions	Reductions	June 30, 2016	Due Within One Year	Due More Than One Year
Other Liabilities						
Compensated absences	\$ 388,940	\$ 404,060	\$ (379,798)	\$ 413,202	\$ 155,601	\$ 257,601
Total	<u>\$ 388,940</u>	<u>\$ 404,060</u>	<u>\$ (379,798)</u>	<u>\$ 413,202</u>	<u>\$ 155,601</u>	<u>\$ 257,601</u>

5. 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.

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. PENSION PLAN

General Information about the Pension Plan

A. Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plans (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors two miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

B. Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each rate plan are applied as specified by the Public Employees' Retirement Law.

The rate plan provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire Date	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payment	Monthly for life	Monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of annual salary	2% to 2.7%	1% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.512%	6.237%

Starting in fiscal year 2016, the required employer contribution rate was separated into an Employer Normal Cost Rate and a fixed dollar payment of the unfunded liability. For fiscal year 2016, the required employer payment of the unfunded liability was \$187,284.

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. PENSION PLAN, Continued

B. Benefits Provided, Continued

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

C. Contributions

The District's contributions to the Plan for the year ended June 30, 2015 were \$496,951, which included \$485,926 for the classic rate plan and \$11,025 for the PEPRA rate plan.

D. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liability for its proportionate share of the net pension liability of the Plan was \$4,536,128.

	Proportionate Share of Plan Net Pension Liability
Miscellaneous - PEPRA	\$ (470)
Miscellaneous - Classic	4,536,598
Total District Proportionate Share	\$ 4,536,128

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportionate share of the net pension liability was based on the District's plan liability and asset-related information where available, and proportional allocations of plan amounts as of the valuation date where not available. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

Proportion - June 30, 2014	0.070510%
Proportion - June 30, 2015	0.066087%
Change - Increase (Decrease)	-0.004423%

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. PENSION PLAN, Continued

D. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

For the year ended June 30, 2016, the District recognized pension expense of \$433,467. Pension expense is allocated to the functions based on full time equivalents. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Pension contributions subsequent to measurement date	\$ 440,565	\$ -
Differences between expected and actual experience	21,964	-
Changes of assumptions	-	207,794
Difference in proportion	63,782	743,358
Differences between the employer's contribution and the employer's proportionate share of contributions	10,703	229,239
Net differences between projected and actual earnings on plan investments	-	104,170
Total	<u>\$ 537,014</u>	<u>\$ 1,284,561</u>

\$440,565 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year	
Ending June 30:	
	<u> </u>
2017	\$ (458,843)
2018	(462,980)
2019	(399,442)
2020	133,153

**Monterey Bay Unified Air Pollution Control District
 dba Monterey Bay Air Resources District
 Notes to Basic Financial Statements
 For the year ended June 30, 2016**

6. PENSION PLAN, Continued

E. Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll growth	3.3%-14.2%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	(1) 7.65%
Mortality	Based on CalPERS specific Data, using Society of Actuaries Scale BB

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2010 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can found on the CalPERS website.

F. Discount Rate

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. PENSION PLAN, Continued

F. Discount Rate, Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100%		

Monterey Bay Unified Air Pollution Control District
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Notes to Basic Financial Statements
For the year ended June 30, 2016

6. PENSION PLAN, Continued

G. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease - 6.65%		
Net Pension Liability (Asset)	\$	8,244,293
Current Discount Rate - 7.65%		
Net Pension Liability (Asset)	\$	4,536,128
1% Increase - 8.65%		
Net Pension Liability (Asset)	\$	1,474,608

H. Pension Plan Fiduciary Net Position

Detailed information about the plan fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2016, the District reported a payable of \$0 for outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

7. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. 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.

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Notes to Basic Financial Statements
For the year ended June 30, 2016

7. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB), Continued

B. 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. The retiree is responsible for any premium costs in excess of the District's contribution.

C. 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	\$	145,382
Interest on net OPEB obligation		7,773
Adjustment to net OPEB obligation		(9,141)
Annual OPEB cost		144,014
Contribution made*		(88,353)
Increase (decrease) in net OPEB obligation		55,661
Net OPEB obligation - beginning of the year		194,335
Net OPEB obligation - end of the year	\$	249,996

*The District's contribution included a payment of \$72,000 to the PARS Trust and employer paid premiums for retirees made directly to providers net of any reimbursements from the PARS Trust. The District did not elect to include the implicit rate subsidy payments related to premium payments for active employees as part of contributions made to the plan.

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:

Fiscal Year	Annual OPEB Cost	Actual Contribution Made	Percentage of APC Contributed	Net OPEB Obligation
6/30/2014	\$ 99,209	\$ 165,404	167.0%	\$ 257,198
6/30/2015	106,466	169,329	159.0%	194,335
6/30/2016	144,014	88,353	61.4%	249,996

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Notes to Basic Financial Statements
For the year ended June 30, 2016

7. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB), Continued

D. Funding Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,816,696, actuarial value of assets was \$318,424, and the unfunded actuarial accrued liability was \$1,498,272, and the funded ratio was 17.5%. The covered payroll (annual payroll of active employees covered by the plan) was \$3,048,078 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 49.2%.

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

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, 2016 was \$389,366. The value of these assets will be taken into account in the next actuarial valuation.

E. 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, 2015 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 4.0% per year. The unfunded actuarial liability is being amortized over a closed thirty year period as a level percentage of future payrolls. The remaining amortization period at June 30, 2016, was 24 years.

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For the year ended June 30, 2016**

8. 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.

9. OPERATING LEASES

The District renewed a lease for office space with the City of Watsonville on January 4, 2013, which expired on January 4, 2016, but is continuing on a month-to-month basis. The monthly rent is \$1,431. The total lease expense for the year ended June 30, 2016 was \$8,584. The District has entered into two sub-leases to lease a portion of the space, one with Santa Cruz County Regional Transportation Commission on June 30, 2011 at \$515 a month through December 31, 2015 and one with California Sunshine Regional Center, LLC on April 15, 2014 at \$400 a month through January 1, 2016.

The District entered into a lease for office space with UC Regents on June 1, 2015, which expired on November 30, 2015. The monthly rent is \$6,187. The total lease expense for the year ended June 30, 2016 was \$61,658. The space was being rented as a temporary location while the District's main office was being renovated. The lease expense is being capitalized as part of the renovation costs.

The District leases certain office equipment under noncancelable operating leases as follows: 1) A copy machine lease expires in August 2017, the monthly lease is \$1,120, total lease expense for the year ended June 30, 2016 was \$11,947; 2) A mail system lease expires August 2016, the monthly lease is \$307, total lease expense for the year ended June 30, 2016 was \$3,683.

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Notes to Basic Financial Statements
For the year ended June 30, 2016

9. OPERATING LEASES, Continued

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

Year Ending 30-Jun	Lease Payments
2017	\$ 12,868
2018	1,991
Total	<u>\$ 14,859</u>

10. COMMITMENTS AND CONTINGENCIES

The District may be subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the ultimate outcome of the claims and litigation, if any, will not have a material adverse effect on the District's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

**Monterey Bay Unified Air Pollution Control District
dba Monterey Bay Air Resources District
Required Supplementary Information
For the year ended June 30, 2016**

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.

A. Budgetary Comparison Schedule

The following are the budget comparison schedules for the General Fund and all major special revenue funds.

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
DMV surcharges	\$ 3,685,000	\$ 3,685,000	\$ 3,934,365	\$ 249,365
Grants - EPA,CEC, Moyer	1,283,300	1,311,300	1,349,905	38,605
Licenses and permits	2,961,710	2,961,710	3,062,121	100,411
Fines and fees	343,000	368,000	477,784	109,784
Investment earnings	74,500	74,500	123,385	48,885
Other revenue	835,990	850,990	954,428	103,438
Total revenues	9,183,500	9,251,500	9,901,988	650,488
EXPENDITURES:				
Current:				
Administration	1,894,625	1,936,125	1,714,042	222,083
Engineering/Compliance	2,594,748	2,543,248	2,541,419	1,829
Air Monitoring	606,110	616,110	583,934	32,176
Planning & Grants	7,760,167	8,044,167	4,500,532	3,543,635
Capital outlay	1,090,350	1,174,350	1,160,312	14,038
Total expenditures	13,946,000	14,314,000	10,500,239	3,813,761
Net change in fund balance	\$ (4,762,500)	\$ (5,062,500)	(598,251)	\$ 4,464,249
FUND BALANCE:				
Beginning of year			15,641,163	
End of year			\$ 15,042,912	

Monterey Bay Unified Air Pollution Control District
Required Supplementary Information
For the year ended June 30, 2016

2. SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll **	Unfunded Actuarial Liability as Percentage of Covered Payroll
7/1/2009	\$ -	\$ 853,852	\$ 853,852	0.0%	\$ 3,400,003	25.1%
7/1/2012	\$ -	\$ 1,085,419	\$ 1,085,419	0.0%	\$ 3,169,637	34.2%
7/1/2015	\$ 318,424	\$ 1,816,696	\$ 1,498,272	17.5%	\$ 3,048,078	49.2%

3. SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LAST 10 YEARS*

Fiscal year:	2016	2015
Measurement date:	6/30/2015	6/30/2014
Proportion of the net pension liability	0.066086%	0.070510%
Proportionate share of the net pension liability	\$ 4,536,128	\$ 4,387,756
Covered payroll	\$ 3,103,566	\$ 3,109,115
Proportionate share of the net pension liability as a percentage of covered payroll	146%	141%
Plan's share of fiduciary net position as a percentage of total pension liability	83.34%	83.39%

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit.

Changes in assumptions. The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense

* Fiscal year 2015 was the 1st year of implementation.

Monterey Bay Unified Air Pollution Control District
Required Supplementary Information
For the year ended June 30, 2016

4. SCHEDULE OF CONTRIBUTIONS LAST 10 YEARS*

	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 440,564	\$ 496,951
Contribution in relation to the actuarially determined contributions	(440,564)	(496,951)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,076,988	\$ 3,103,566
Contributions as a percentage of covered payroll	14.32%	16.01%
Note to Schedule		
Valuation date:	6/30/2013	6/30/2012

* - Fiscal year 2015 was the 1st year of implementation