MONTEREY BAY UNIFIED AIR POLLUTION CONTROL DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2015

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, 2015, 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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HAYASHI & WAYLAND ACCOUNTING & CONSULTING, LLP | LOCATIONS IN CARMEL, KING CITY, PASO ROBLES & SALINAS

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, 2015, 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 Budgetary Comparison Schedule on page 32, the Schedule of Funding Progress of Other Post Employment Benefits on page 34, the Schedule of Proportionate Share of the Net Position Liability on page 35 and the Schedule of Contributions on page 36 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 16, 2015

Hayashi Wayland

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

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, 2015. 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 million (net position). Of this amount, $8.7 million (restricted net position) are legally restricted for grant programs and other purposes.
- A prior period adjustment in the amount of $5.4 million was made to reduce beginning net position due to the implementation of GASB 68 and 71.
- The District's total net position increased by $412,000 from the prior year.
- As of the close of the fiscal year, the District's governmental funds reported combined ending fund balances of $15.6 million, an increase of $124,000 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 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 31 of this report.

GOVERNMENT–WIDE FINANCIAL ANALYSIS

GASB 68 and 71 were implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation.

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

	2015	2014	Change
Current and other assets	$ 16,412,000	$ 16,711,000	$ (299,000)
Capital assets	1,263,000	1,118,000	145,000
Total assets	17,675,000	17,829,000	(154,000)
Deferred outflow of resources	565,000	–	565,000
Current and other liabilities	917,000	1,164,000	(247,000)
Long-term liabilities	4,803,000	656,000	4,147,000
Total liabilities	5,720,000	1,820,000	3,900,000
Deferred inflow of resources	1,468,000	–	1,468,000
Net investment in capital assets	1,263,000	1,118,000	145,000
Restricted	8,681,000	8,080,000	601,000
Unrestricted	1,108,000	6,811,000	(5,703,000)
Total net position	$ 11,052,000	$ 16,009,000	$ (4,957,000)

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, 2015, the District's assets exceeded its liabilities by $11 million.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

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

Approximately $8.7 million (79% of total net position) are restricted for grants and other purposes.

GASB 68 and 71 were implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation.

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

	2015	2014	Change
Revenues:			
Program Revenues:			
Charges for services	$ 3,538,000	$ 3,698,000	$ (160,000)
Operating grants and contributions	565,000	1,214,000	(649,000)
General Revenues:			
DMV surcharges	2,535,000	2,511,000	24,000
AB 923	1,267,000	1,255,000	12,000
Federal and State grants	469,000	464,000	5,000
City/County contributions	204,000	171,000	33,000
Investment income	79,000	80,000	(1,000)
Loss on capital asset	(5,000)	(10,000)	5,000
Other	399,000	462,000	(63,000)
Total Revenues	9,051,000	9,845,000	(794,000)
Expenses:			
Administration	1,750,000	2,498,000	(748,000)
Engineering/Compliance	2,288,000	2,638,000	(350,000)
Air monitoring	770,000	765,000	5,000
Planning and grants	3,831,000	5,642,000	(1,811,000)
Total Expenses	8,639,000	11,543,000	(2,904,000)
Change in net position	412,000	(1,698,000)	2,110,000
Net position, beginning of year, as restated	10,640,000	17,707,000	(7,067,000)
Net position, end of year	$ 11,052,000	$ 16,009,000	$ (4,957,000)

Revenues from fees, fines and charges for services totaled approximately $3.5 million, which is $160,000 lower than the previous year's total. The primary reason for the decrease was the new annual renewal fee structure for major sources. As compared to the previous fiscal year, major source annual renewal fees decreased by about $441,000. Revenues with significant increases over the previous year included Asbestos with a $56,000 increase, Title V revenues with a $49,000 increase, and penalties and fines up by approximately $113,000.

Operating grant revenues in FY 2014–15 were lower by $649,000 as compared to the previous year primarily due to the timing of Moyer grants received. Federal and State grants included EPA and California Energy Commission grants and were very close to previous year totals. City and County contributions increased by $33,000 due to an increase to the per capita rates from $.23 to $.27. The last revenue category, "Other" revenues, include CARB Subvention, rental income and off-site mitigation fees.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

Revenues from State DMV surcharges (including AB 923 funds) were about 1% higher than the previous fiscal year, or about $36,000 higher in total.

Expenditures for the year totaled $8.6 million. Administration Division expenses were down in total by about $748,000 primarily due to the CalPERS retirement plan side fund payoff of $809,773 that occurred in FY 13–14. Professional services were up by about 18% as compared to the prior year, primarily due to legal expenses related to recent litigation.

Engineering and Compliance Divisions' expenditures were lower than the previous year by about $350,000. Salaries and benefits were down due to savings from unfilled positions.

Air Monitoring expenses were very close to the previous year totals. Planning Division expenses were lower by about $1.8 million, primarily due to lower grant payments for the Carl Moyer and AB2766 grant programs in FY 2014–15. Planning professional services included about $160,000 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 $412,000 bringing the net position to $11.0 million as of June 30, 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The book value of the District's investment in capital assets was $1,263,069 (net of accumulated depreciation of $4.5 million) as of June 30, 2015. This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, computer and office equipment, and vehicles.

In FY 2014–15, there was a $145,349 net increase in capital assets consisting of:

Capital purchases	$ 296,826
Assets retired	(97,296)
Depreciation, net of retired assets	(54,181)
Total	$ 145,349

Capital purchases for the year included software for $167,850 for a new permit management database, $109,270 for the building remodel project, and $19,706 for computer equipment and software.

Additional information regarding the capital assets can be found in Note 3 in the "Notes to Basic Financial Statements," page 19.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt Administration

At June 30, 2015, the District had total debt of $4,971,031, consisting of Pension Liability, Compensated Absences (accrued leave) and Other Post-Employment Benefits (OPEB) liabilities.

In compliance with GASB Statement 68, the District recorded its net pension liability of $4,387,756. Compensated Absences debt in FY 2014–15 decreased by $9,600. OPEB liabilities decreased by about $63,000, 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 4 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, 2015 was $15.6 million, an increase of approximately $124,000 from the prior year. The increase was primarily due to the net of the following factors:

- Decrease to the General Fund of approximately $477,000. Significant expenditures included: a) $311,000 in fixed assets expenditures including $167,850 for the permit database system project and $109,270 for the second floor remodel project, b) $150,000 for a second 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) $71,000 in Woodstove Changeout grants.

- Increase to the AB2766 Grant program funds of approximately $174,000 (net of administrative expenses). DMV $4.00 fees received from the State totaled $2.5 million and grant expenditures were about $1.3 million.

- Increase to the AB923 Grant program funds of approximately $300,000 (net of administrative expenses). DMV $2.00 fees received from the State totaled $1.27 million. AB923 grant expenditures were about $974,000.

- Increase to the Moyer Grant program funds of approximately $35,000 (net of administrative expenses). Grant funds received from the State totaled approximately $535,000 and grant expenditures were about $462,000 including grants funded from previous year's Moyer grant receipts.

- Increase to the General Grant fund of $93,000. Revenues from offsite mitigation fees for the East Garrison Specific Plan Project in Monterey County totaled $137,000 and grant expenditures were about $46,000. 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 $9.1 million compared to a final budget of $9.5 million. The categories with the largest favorable budget variances were DMV Surcharges that were about $157,000 over budget, civil and permit penalties that were nearly $150,000 over budget, and permit fees about $28,500 over budget. The large variance for penalties is due to the District's practice of budgeting a fairly conservative amount for penalties on an annual basis. The District does not rely on penalties to provide resources for operations and penalties can fluctuate widely from year to year, depending on circumstances.

The categories with the largest unfavorable budget variances included Carl Moyer grant revenues that were about $441,000 under budget (due to timing of grant projects), miscellaneous revenues $62,000 under budget primarily due to lower revenues from the Fort Ord contract with the Department of Toxics Substances and Controls, and Asbestos Program fees about $43,000 under budget.

Expenditures

Actual expenditures for the year totaled $8.9 million as compared to a budget of $14.15 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, $4.1 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 $1.3 million, resulting in a budget variance of $2.8 million. Similar timing issues existed for the AB923 grant program and the Carl Moyer grant program.

Other notable expenditure budget variances included a $253,000 positive variance in salaries and benefits, primarily due to unfilled positions. Although legal expenses were over budget by $73,000, other professional services were below budget by about $187,000. The largest favorable variance for professional services was in the Planning Division with about a $101,000 variance. This variance was largely due to the timing of professional services paid for the electric vehicle readiness program and also due to lower expenditures in public outreach than planned in the budget. In addition, there was a $94,000 positive budget variance in capital outlays, primarily due to timing of the completion of the permit database system project. Travel and training were also lower than budget by about $67,000, and supplies expenses were lower by about $55,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The FY 2015–16 new budget was prepared with the assumption that operating revenues would be about 1% higher than the previous year, including permit fees increases totaling $101,000. The budget also includes the elimination of three vacant positions and the addition of a new inspector position. Fixed asset purchases of $1,090,350 are projected, including the office building remodel project estimated to cost $1.0 million.

In FY 2015–16, the General Fund budget is projected to have a $1,552,000 net deficit, largely due to factors such as: a) Building remodel project estimated at $1.0 million, b) Completion of implementing a new permit database management c) Increases to salaries and benefits based on labor and employment agreements and d) Increases to legal expenses due to recent litigation filed against the District. The projected budget deficit will be covered by the use of General Fund reserves, including a $938,550 reserve designated for building and facilities.

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

For non-operating budget revenues (grant program revenues), the FY 2015–16 budget is lower by about $200,000 primarily due to a projected decrease in Moyer grant revenues. Non-operating expenditures are projected to be higher in FY 2015–16 largely due to the building remodel project expenditures and higher Moyer grant payments.

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, 2015

ASSETS	
Cash and investments	$ 15,267,096
Receivables, net	409,896
Interest receivable	31,625
DMV fees receivable	656,823
Other receivables	25,440
Prepaid expenses	21,016
Capital assets, net:	
Nondepreciable	556,441
Depreciable	706,628
Total assets	17,674,965
DEFERRED OUTFLOWS OF RESOURCES	
PERS contributions	496,951
Pension adjustments	67,752
Total deferred outflows of resources	564,703
LIABILITIES	
Accounts payable	593,548
Accrued liabilities	155,195
Noncurrent liabilities:	
Due within one year	167,600
Due in more than one year	4,803,431
Total liabilities	5,719,774
DEFERRED INFLOWS OF RESOURCES	
Pension adjustments	1,467,720
NET POSITION	
Net investment in capital assets	1,263,069
Restricted	8,681,186
Unrestricted	1,107,919
Total net position	$ 11,052,174

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net position
FUNCTIONS/PROGRAMS				
Governmental activities:				
Administration	$ 1,750,214	$ 584	$ –	$ (1,749,630)
Engineering/Compliance	2,287,996	3,459,096	–	1,171,100
Air monitoring	770,288	77,915	30,300	(662,073)
Planning and grants	3,830,540	–	534,536	(3,296,004)
Total governmental activities	$ 8,639,038	$ 3,537,595	$ 564,836	$ (4,536,607)
General revenues:				
DMV surcharges				2,534,976
AB 923				1,267,488
Federal grants				469,292
City/County contributions				203,814
Investment income				78,962
Loss on capital asset				(4,866)
Other				398,634
Total general revenues				4,948,300
CHANGE IN NET POSITION				411,693
NET POSITION, BEGINNING OF YEAR, AS RESTATED				10,640,481
NET POSITION, END OF YEAR				$ 11,052,174

See Notes to Basic Financial Statements.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
BALANCE SHEET – GENERAL FUND
JUNE 30, 2015

ASSETS	
Cash and investments	$ 15,267,096
Receivables, net	409,896
Interest receivable	31,625
DMV fees receivable	656,823
Other receivables	25,440
Prepaid expenses	21,016
Total assets	$ 16,411,896
LIABILITIES	
Accounts payable	$ 593,548
Accrued liabilities	155,195
Total liabilities	748,743
DEFERRED INFLOWS OF RESOURCES	
Deferred judgment revenue	21,990
FUND BALANCES	
Nonspendable	46,958
Restricted:	
AB2766	3,439,290
Moyer	388,517
General grants	427,174
AB923	4,426,205
Committed:	
Economic uncertainties	1,608,500
Building and facilities	938,550
Vehicle and equipment replacement	100,000
OPEB funding	560,000
Unassigned	3,705,969
Total fund balances	15,641,163
Total liabilities, deferred inflows of resources and fund balances	$ 16,411,896

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

Fund balance – General Fund	$ 15,641,163
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	1,263,069
Some of the District's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds	21,990
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	(903,017)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(4,971,031)
NET POSITION	$ 11,052,174

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, 2015

REVENUES:	
DMV surcharges	$ 3,802,464
Grants	1,034,128
Licenses and permits	2,645,589
Fines and fees	821,517
Investment earnings	78,962
Other revenues	680,947
Total revenues	9,063,607
EXPENDITURES:	
Current:	
Administration	1,714,536
Engineering/Compliance	2,387,398
Air monitoring	697,003
Planning and grants	3,843,591
Capital outlay	296,826
Total expenditures	8,939,354
NET CHANGE IN FUND BALANCE	124,253
FUND BALANCE, BEGINNING OF YEAR	15,516,910
FUND BALANCE, END OF YEAR	$ 15,641,163

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, 2015

NET CHANGE IN FUND BALANCE	$ 124,253
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	296,826
Current year depreciation	(146,612)
Loss on disposal of asset	(4,865)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	(8,011)
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	9,603
OPEB costs	62,863
Current year pension cost difference	77,636
CHANGE IN NET POSITION	$ 411,693

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2015, the allowance was estimated to be $9,851.

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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) plans and additions to/deductions from the Plans' 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.

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, 2015, the amount of these funds was $8,681,186.

Fund Balances – Fund balance classifications are based primarily on the extent to which the District is bound to honor constraints on the use of the resources reported in each governmental fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

Subsequent Events – Subsequent events have been evaluated through December 16, 2015, which is the date the financial statements were available to be issued.

Effects of New Pronouncements – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* and in November 2013, they issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date; an amendment of GASB Statement No. 68.* The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. These Statements establish 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 these Statements will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The District implemented these Statements in fiscal year 2015. As a result of this implementation, the District reported a prior period adjustment to net position in the amount of $5,368,408 and recognized a net pension liability and deferred outflow of resources and deferred inflow of resources associated with the pension liability as of June 30, 2015.

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 $15,197,390 at June 30, 2015 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

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

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, 2015, $ –0– of the District's bank balance of $146,215 was exposed to custodial credit risk as uninsured as the funds were collateralized by the pledging bank's trust department not in the District's name.

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance 6/30/14	Additions/ Transfers	Disposals	Balance 6/30/15
Capital assets not being depreciated:				
Land	$ 271,707	$ –	$ –	$ 271,707
Construction in progress	–	116,884	–	116,884
Projects in progress	–	167,850	–	167,850
Total capital assets not being depreciated	271,707	284,734	–	556,441
Capital assets being depreciated:				
Buildings and improvements	3,782,045	(7,614)	–	3,774,431
Office furniture and equipment	358,639	19,706	(51,145)	327,200
Equipment	567,056	–	–	567,056
Vehicles	593,703	–	(46,151)	547,552
Total capital assets being depreciated	5,301,443	12,092	(97,296)	5,216,239
Less accumulated depreciation for:				
Buildings and improvements	3,382,184	29,106	–	3,411,290
Office furniture and equipment	206,946	34,416	(48,587)	192,775
Equipment	395,942	55,064	–	451,006
Vehicles	470,358	28,026	(43,844)	454,540
Total accumulated depreciation	4,455,430	146,612	(92,431)	4,509,611
Net capital assets being depreciated – net	846,013	(134,520)	(4,865)	706,628
Total capital assets – net	$ 1,117,720	$ 150,214	$ (4,865)	$ 1,263,069

NOTE 3. CAPITAL ASSETS (Continued)

Depreciation expense for the year ending June 30, 2015 was charged to functions/programs as follows:

Administration	$ 48,271
Engineering/compliance	5,177
Air monitoring	93,164
Total depreciation expense	$ 146,612

NOTE 4. LONG–TERM LIABILITIES

Long-term liability balances and transactions for the year ended June 30, 2015 are as follows:

	Balance 6/30/14*	Additions	Reductions	Balance 6/30/15	Due Within One Year
Other liabilities:					
Compensated absences	$ 398,543	$ –	$ 9,603	$ 388,940	$ 167,600
Other post employment benefits	257,198	87,137	150,000	194,335	–
Net pension liability	6,738,817	2,439,648	4,790,709	4,387,756	–
Total	$ 7,394,558	$ 2,526,785	$ 4,950,312	$ 4,971,031	$ 167,600

*The beginning balance was changed to reflect the prior period adjustment for the net pension liability.

NOTE 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.

NOTE 5. DEFERRED COMPENSATION PLAN (Continued)

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

NOTE 6. PENSION PLAN

General Information about the Pension Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). 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.

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 plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7%	6.250%
Required employer contribution rates	10.781%	10.781%

Contributions – 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.

NOTE 6. PENSION PLAN (Continued)

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan was as follows:

	Miscellaneous
Contributions - employer	$ 348,884
Contributions - employee (paid by employer)	$ 211,750

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

As of June 30, 2015, the District reported net pension liability for its proportionate share of the net pension liability of the Plan was $4,387,756.

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 Plans is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous
Proportion - June 30, 2013	0.08360%
Proportion - June 30, 2014	0.07051%
Change - Increase (Decrease)	(0.01309)%

For the year ended June 30, 2015, the District recognized pension expense of $419,315. Pension expense is allocated to the functions based on full time equivalents. At June 30, 2015, 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
Pension contributions subsequent to measurement date	$ 496,951	$ –
Difference in proportion	67,752	–
Difference in employer's contributions and the employer's proportionate share of contributions	–	9,715
Net differences between projected and actual earnings on plan investments	–	1,458,005
Total	$ 564,703	$ 1,467,720

NOTE 6. PENSION PLAN (Continued)

$496,951 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, 2016. 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 Ended June 30		
2016	$	(343,947)
2017	$	(343,947)
2018	$	(343,947)
2019	$	(364,503)

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	Based on CalPERS specific Data, using Society of Actuaries Scale BB

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 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.

NOTE 6. PENSION PLAN (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017–18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they change their methodology.

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.

NOTE 6. PENSION PLAN (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

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:

	Miscellaneous
1% Decrease	6.50%
Net Pension Liability	$ 7,893,215
Current Discount Rate	7.50%
Net Pension Liability	$ 4,387,756
1% Increase	8.50%
Net Pension Liability	$ 1,478,599

Pension Plan Fiduciary Net Position – Detailed information about the plan fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 7. 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.

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

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 ($109.80 per month for fiscal year 2015). 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.

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)	$ 108,629
Interest on net OPEB obligation	16,288
Adjustment to ARC	(18,451)
Annual OPEB cost expense	106,466
Contributions made	(169,329)
Decrease in net OPEB obligation	(62,863)
Net OPEB obligation, beginning of year	257,198
Net OPEB obligation, end of year	$ 194,335

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
2013	$ 92,267	$ 11,934	12%	$ 323,393
2014	$ 99,209	$ 165,404	167%	$ 257,198
2015	$ 106,466	$ 169,329	159%	$ 194,335

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 $3,201,796, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36.3%.

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

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, 2015 were $318,424. The value of these assets will be taken into account in the next actuarial valuation.

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, 2015, was twenty-five years.

NOTE 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.

NOTE 8. RISK FINANCING (Continued)

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

NOTE 9. 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 $1,431. The total lease expense for the year ended June 30, 2015 was $16,901. 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 20, 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 expires on November 30, 2015. The monthly rent is $6,187. The total lease expense for the year ended June 30, 2015 was $6,187. The space is being rented as a temporary location while the District's main office is 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, 2015 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, 2015 was $3,683.

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

Year Ending June 30	Lease Payments	Sub-Lease Receipts
2016	$ 62,559	$ 5,490
2017	12,868	–
2018	1,991	–
Total	$ 77,418	$ 5,490

NOTE 10. COMMITMENTS AND CONTINGENCIES

In the fiscal year ending June 30, 2015, the District has various service and project contracts totaling $1,165,186, of which $506,133 still remained on the contracts as of June 30, 2015.

NOTE 10. COMMITMENTS AND CONTINGENCIES (Continued)

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.

NOTE 11. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to Net Position as follows:

Net Position at June 30, 2014		$ 16,008,889
Implementation of GASB 68 and 71:		
Net Pension Liability (measurement date)	$ (6,738,817)	
Deferred outflows – PERS contributions made during fiscal year 2014	1,370,409	
Prior period adjustment		(5,368,408)
Restated Net Position at June 30, 2014		$ 10,640,481

NOTE 12. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED

In June 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement, applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement will enhance fair value application guidance, comparability of financial statements among governments, and related disclosures by providing information on valuation techniques and the impact of fair value measurements on a government's financial position. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. 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 No. 72 will have on the accompanying financial statements.

In June 2015, GASB issued 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*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans that are within their respective scopes. This Statement improves the usefulness and comparability of information about pensions by establishing a single framework for the presentation of pensions. The provisions of this Statement that are within the scope of Statement No. 67 or 68 are effective for fiscal years beginning after June 15, 2015. The provisions of this Statement that address

NOTE 12. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED (Continued)

employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016. 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 No. 73 will have on the accompanying financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43 and No. 57 related to postemployment benefits other than pensions, as well as includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, No. 43, and No. 50. Statement No. 74 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The provisions in this Statement are effective for fiscal years beginning after June 15, 2016. 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 No. 74 will have on the accompanying financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45 and No. 57 related to postemployment benefits other than pensions. Statement No. 75 establishes new accounting and financial reporting requirements for OPEB plans. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. The provisions in this Statement are effective for fiscal years beginning after June 15, 2017. 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 No. 75 will have on the accompanying financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement supersedes Statement No. 55, related to GAAP hierarchy. The requirements in this Statement will allow governments to apply financial reporting guidance with less variation, which will improve the usefulness and comparability of financial statement information for making decisions and assessing accountability. The provisions in this Statement are effective for reporting periods beginning after June 15, 2015, and should be applied retroactively. 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 No. 76 will have on the accompanying financial statements.

NOTE 12. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED (Continued)

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement improve financial reporting by requiring disclosures for essential tax abatement information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. 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 No. 77 will have on the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
DMV Surcharges	$ 3,645,000	$ 3,645,000	$ 3,802,464	$ 157,464
Grants	1,523,750	1,523,750	1,034,128	(489,622)
License and permits	2,622,578	2,622,578	2,645,589	23,011
Fines and fees	770,970	770,970	821,517	50,547
Investment earnings	72,500	72,500	78,962	6,462
Other revenues	831,402	831,402	680,947	(150,455)
Total revenues	9,466,200	9,466,200	9,063,607	(402,593)
EXPENDITURES:				
Current:				
Administration	1,665,562	1,745,162	1,714,536	30,626
Engineering/ Compliance	2,657,524	2,611,424	2,387,398	224,026
Air monitoring	757,412	758,812	697,003	61,809
Planning and grants	8,675,772	8,638,419	3,843,591	4,794,828
Capital outlay	320,000	391,200	296,826	94,374
Total expenditures	14,076,270	14,145,017	8,939,354	5,205,663
NET CHANGE IN FUND BALANCE	$ (4,610,070)	$ (4,678,817)	$ 124,253	$ 4,803,070

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.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2015

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
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%
2015	7/1/2012	$ –	$ 1,243,991	$ 1,243,991	0.0%	$ 3,201,796	38.9%

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY Last 10 Years*
FOR THE YEAR ENDED JUNE 30, 2015

	Miscellaneous	PEPRA
Proportion of the net pension liability	0.07051%	0.00000%
Proportionate share of the net pension liability	$4,387,713	$43
Covered employee payroll	$3,048,078	$61,037
Proportionate Share of the net pension liability as percentage of covered employee payroll	143.95%	0.07%
Plan's fiduciary net position	$22,035,867	$213
Plan fiduciary net position as a percentage of the total pension liability	83.39%	83.20%

Notes to Schedule:

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

MONTEREY BAY UNIFIED AIR
POLLUTION CONTROL DISTRICT
SCHEDULE OF CONTRIBUTIONS Last 10 Years*
FOR THE YEAR ENDED JUNE 30, 2015

	2015 Miscellaneous
Contractually required contribution (actuarially determined)	$ 303,236
Contributions in relation to the actuarially determined contributions	303,236
Contribution deficiency (excess)	$ –
Covered employee payroll	$ 2,246,902
Contributions as a percentage of covered-employee payroll	13.50%

Notes to Schedule:

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increases	4.5%, average, including inflation of 3.0%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Retirement age	57 yrs.
Mortality	RP-2000 Healthy Annuitant Mortality Table

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.