Monterey Bay Unified Air Pollution Control District

Monterey, California

Basic Financial Statements and Independent Auditors' Reports

For the year ended June 30, 2017

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

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BADAWI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, each major fund, and the aggregate remaining fund information of the Monterey Bay Unified Air Pollution Control District, California (District) as of and for the year ended June 30, 2017, 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.

Address: 180 Grand Avenue, Suite 1500 Oakland, CA 94612 • Phone: 510.768.8251 • Fax: 510.768.8249

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, each major fund, and the aggregate remaining fund information of the District as of June 30, 2017, 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 plan schedules, schedule of funding progress – OPEB, and the schedule of investment returns – OPEB on pages 3-9 and 50–52 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.

Badawi & Associates

Badawi & Associates
Certified Public Accountants
Oakland, California
December 11, 2017

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, 2017

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, 2017. 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 $12.9 million (net position). Of this amount, $10.6 million (restricted net position) are legally restricted for grant programs and other purposes.
- The District's total net position increased by $1,563,000 from the prior year.
- As of the close of the fiscal year, the District's governmental funds reported combined ending fund balances of $17.0 million, an increase of $2,006,000 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 28 to 47 of this report.

GOVERNMENT–WIDE FINANCIAL ANALYSIS

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

	2017	2016	Change
Current and other assets	$ 18,194,000	$ 15,493,000	$ 2,701,000
Capital assets	2,256,000	2,247,000	9,000
Total assets	20,450,000	17,740,000	2,710,000
Deferred outflow of resources	1,500,000	537,000	963,000
Current and other liabilities	1,228,000	605,000	623,000
Long-term liabilities	6,773,000	5,044,000	1,729,000
Total liabilities	8,001,000	5,649,000	2,352,000
Deferred inflow of resources	1,043,000	1,285,000	242,000
Net investment in capital assets	2,256,000	2,247,000	9,000
Restricted	10,596,000	9,286,000	1,310,000
Unrestricted	54,000	(190,000)	244,000
Total net position	$ 12,906,000	$ 11,343,000	$ 1,563,000

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, 2017, the District’s assets exceeded its liabilities by $12.9 million.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

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

Approximately $10.6 million (82% of total net position) are restricted for grants and other purposes. The unrestricted portion of the District's net position increased by almost $244,000 from the previous year. This increase is primarily due to an increase in current assets of about $2.7 million offset by a decrease in current liabilities and long term debt of about $2.4 million. Restricted assets in the District's grant funds increased by $1.3 million. These funds will be spent primarily on grant projects in future periods.

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

	2017	2016	Change
Revenues:			
Program Revenues:			
Charges for services	$ 4,323,000	$ 3,592,000	$ 731,000
Operating grants and contributions	441,000	1,350,000	(909,000)
General Revenues:			
DMV surcharges	2,677,000	2,623,000	54,000
AB 923	1,338,000	1,311,000	27,000
City/County contributions	269,000	234,000	35,000
Investment income	186,000	123,000	63,000
Other	989,000	647,000	342,000
Total Revenues	10,223,000	9,880,000	343,000
Expenses:			
Administration	1,938,000	1,436,000	502,000
Engineering/Compliance	2,909,000	2,848,000	61,000
Air monitoring	712,000	739,000	(27,000)
Planning and grants	3,101,000	4,566,000	(1,465,000)
Total Expenses	8,660,000	9,589,000	(929,000)
Change in net position	1,563,000	291,000	1,272,000
Net position, beginning of year	11,343,000	11,052,000	291,000
Net position, end of year	$ 12,906,000	$ 11,343,000	$ 1,563,000

For Program Revenues, Charges for Services totaled approximately $4.3 million, which is $731,000 higher than the previous year's total. The additional revenues included a 3.2% CPI increase to permit fees and an increase in civil penalties of about $465,000 as compared to the previous year. Operating grant revenues in FY 2016-17 were lower by $909,000 as compared to the previous year primarily due to $755,000 decrease in Carl Moyer grant program revenues based on the timing of grant projects. A $17,000 decrease in EPA grants also affected this revenue category.

For General Revenues, DMV and AB923 surcharges increased by about 2% over the previous year. City and County contributions were up by $35,000 due to an increase to the per capita rates from $.31 to $.35. Investment income increased by about $63,000 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, off-site mitigation fees from the East Garrison housing development in Marina, and miscellaneous income. Miscellaneous income included $268,000 in cost recoveries from large civil penalty cases. Off-site mitigation fees totaled $318,000 during the 2016-17 fiscal period, a decrease of $13,000. Rental income increased by about $42,000 due to a full year of the 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 $8.4 million. Administration Division expenses were up in total by about $502,000 primarily due to a increases in fixed assets, legal services, and public education program expenditures. Engineering and Compliance Divisions' expenses were greater than the previous year by about $61,000, primarily due to higher salaries and benefits and the purchase of fixed assets in FY 2016-17.

Air Monitoring expenses were $27,000 lower than the previous year primarily due to a lower allocation of salary related District-wide expenses, such as pension expense and Other Post Employment Benefit (OPEB) expenses. Planning Division expenses were lower by about $1.5 million, primarily due to the timing of grant reimbursements. AB 2766 grants and electric vehicle rebates totaled $1.2 million as compared to $1.5 in FY 2015-16. AB 923 grants were down by almost $1.4 million but $764,000 was spent on professional services for the new electric vehicle infrastructure program. For the Carl Moyer grant program, grant reimbursements were down by $467,000 as compared to the prior year. Planning Division General Fund professional services were down by about $76,000 because FY 2015-16 included services for the electric vehicle readiness program that was funded by a California Energy Commission grant.

Overall, the District's net position increased by $1,563,000 bringing the net position to $12.9 million as of June 30, 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The book value of the District's investment in capital assets was $2,255,000 (net of accumulated depreciation of $4.6 million) as of June 30, 2017. This investment in capital assets includes land, buildings, laboratory equipment, air monitoring stations, computer and office equipment, and vehicles.

In FY 2016-17, there was a $9,000 net increase in capital assets consisting of:

Capital purchases	$ 216,000
Assets retired	(88,000)
Depreciation, net of retired assets	(119,000)
Total	$ 9,000

Capital purchases for the year included $109,000 for the 3rd floor building remodel project, $60,000 for vehicles, $25,000 for a MicroPhazir asbestos analyzer, $9,500 for building improvements, $8,700 for air monitoring equipment, and $4,500 for software. The 3rd floor building remodel project is the second phase of the improvements to workstations, restrooms and lighting that began with the 2nd floor remodel project in FY 2015-16.

Additional information regarding the capital assets can be found in Note 3 in the "Notes to Basic Financial Statements," pages 36 - 37.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long Term Liabilities

At June 30, 2017, the District had total long term liabilities of $6,946,000, consisting of Pension Liability, Compensated Absences (accrued leave) and Other Post-Employment Benefits (OPEB) liabilities.

The District's net pension liability increased by $1,713,000 to $6,250,000. Compensated Absences debt increased by $24,000. OPEB liabilities increased by about $37,000, net of a $95,000 deposit 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 37-45, 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, 2017 was $17 million, an increase of approximately $2,006,000 from the prior year. The increase was primarily due to the net of the following factors:

- Increase to the General Fund of approximately $695,000. Overall revenues exceeded budget by about $131,000 with the largest positive variances in permit fees and interest income. Expenditures were $780,000 under budget primarily due to timing of expenses for the 3rd floor remodeling project. Significant expenditures included: a) $212,000 in legal expenses, b) $184,000 in fixed assets expenditures including $109,000 for the third floor remodeling project, $27,000 for vehicle replacements, $25,000 for asbestos program equipment, and $12,000 for air monitoring equipment, c) $95,000 for a deposit to the District's OPEB liability trust account, and d) $73,500 in Woodstove Changeout grants.

- Increase to the AB2766 Grant program funds of approximately $568,000. DMV $4.00 fees received from the State totaled $2.7 million, an increase of approximately $55,000 over the previous year. Grant expenditures were about $835,000 of which $400,000 was spent on the electric vehicle rebates new program. Other expenditures were about $316,000 under budget.

- Increase to the AB923 Grant program funds of approximately $521,000. DMV $2.00 fees received from the State totaled $1.3 million, an increase of approximately $27,000 over the previous year. AB923 grant expenditures were about $60,000 as compared to budget of $1.8 million due to grant projects' timing issues. $764,000 was spent of the $1.2 million set aside for the District's new electric vehicle infrastructure program which is intended to increase the number of charging stations in the Monterey, Santa Cruz, and San Benito counties.

- Decrease to the Moyer Grant program funds of approximately $20,000. No operating grant funds were received from the State as they will be received in the new fiscal period. Funds received for grant projects totaled approximately $119,000 as compared to budget of $767,000 due to timing issues of grant project completions. Grant expenditures were about $67,000.

- Increase to the General Grant fund of $242,000. Revenues from offsite mitigation fees for the East Garrison Specific Plan Project in Marina (Monterey County) totaled $318,000. Grant expenditures were about $85,000. 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 $10.1 million compared to a final budget of $10.4 million. The categories with the largest favorable budget variances were:

- DMV Surcharges, about $145,000 higher than budget
- Off-site mitigation fees, about $118,000 higher than budget
- Interest income, about $105,000 higher than budget
- Permit fees, about $93,000 higher than budget
- Asbestos program fees, about $16,000 higher than budget.

The categories with the largest unfavorable budget variances included:

- Carl Moyer grant program revenues, about $719,000 under budget (grants timing issues)
- Miscellaneous revenues, $16,000 under budget
- EPA grant revenues, $15,000 under budget.

Expenditures

Actual expenditures for the year totaled $8.1 million as compared to a budget of $14.4 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, $2.6 million was budgeted for AB2766 expenditures for new grants and unspent grants carried forward from previous years. Out of this total, actual payments to grantees totaled $835,000, resulting in a budget variance of $1.7 million. Similar timing issues existed for the AB923 grant program with a $1.7 million budget variance and the Carl Moyer grant program with a $1.1 million variance.

Other notable expenditure budget variances included a $163,000 positive variance for legal and professional services, with the largest variances in the Planning Division ($63,000 under budget), legal ($48,000 under budget), and the Engineering Division ($23,000 under budget). In addition, there was a $395,000 budget fixed assets positive variance due to the timing of work on the 3rd floor remodel project, a $336,000 positive variance for salaries and benefits due to unfilled positions, and a $60,000 positive variance for supplies.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The FY 2017–18 new budget was prepared with the assumption that operating revenues would be about $500,000 lower than the previous year, primarily due to projected decreases in penalties and fines which were higher than normal in FY 2016-17. Permit fees are estimated to increase by about $65,000 due to a 5% CPI increase. The budget includes $145,000 in California Energy Commission grant revenues with an offsetting expense for professional services. The budget assumes the same staffing level of 34 employees but with two vacant positions remaining unfilled. Salaries and benefit costs are budgeted with a $46,000 decrease due to two unfilled positions but factors in higher pension costs and wage increases. Fixed asset purchases of $988,500 are projected, consisting of $931,500 for the third floor building remodel project, $30,000 for exterior painting of the District's office building, and $27,000 for air monitoring equipment.

In FY 2017–18, the General Fund budget is projected to have a $906,500 net deficit, largely due to factors such as: a) Third floor building remodel project estimated at $931,500, b) a $95,000 deposit to the District's Other Post Employment Benefit (OPEB) trust, and c) lower expected revenues of about $40,000 from EPA grants. 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 OPEB liability reserve that had a balance of $370,000 as of June 30, 2017.

For non-operating budget revenues (grant program revenues), the FY 2017–18 budget is higher by about $692,000 primarily due to projected higher Carl Moyer grant revenues. Non-operating expenditures includes a total of $6.7 million for grant expenditures, $400,000 for electric vehicle rebates, and $200,000 for an electric vehicle infrastructure project using AB923 funds.

The District's June 30, 2017 General Fund reserve balance was $5.8 million with $2.5 designated for special purposes and $3.3 million unassigned. This level of reserves will help offset potential revenue losses and/or increased expenditures. Future financial challenges include potential loss of permit fee revenues from major sources, expected decreases to EPA grant funding, and increases to retirement and health benefit costs. To minimize the effect of these factors, 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, 2017

ASSETS		
Current assets:		
Cash and investments	$	16,914,667
Receivables:		
Account receivables, net		434,750
Interest receivables		47,915
DMV fees receivable		724,539
Other receivables		49,766
Prepaid expenses		22,585
Total current assets		18,194,222
Noncurrent assets:		
Capital assets:		
Non-depreciable		380,870
Depreciable, net		1,875,046
Total capital assets, net		2,255,916
Total noncurrent assets		2,255,916
Total assets		20,450,138
DEFERRED OUTFLOWS OF RESOURCES		
Deferred employer pension contributions		471,224
Deferred outflows of resources - pension		1,028,308
Total deferred outflows of resources		1,499,532
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities		1,052,573
Unearned revenue		2,484
Compensated absences - due in one year		173,334
Total current liabilities		1,228,391
Noncurrent liabilities:		
Compensated absences - due in more than one year		236,121
Net OPEB obligation		286,553
Net pension liability		6,249,868
Total noncurrent liabilities		6,772,542
Total liabilities		8,000,933
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pension		1,042,517
Total deferred inflows of resources		1,042,517
NET POSITION		
Investment in capital assets		2,255,916
Restricted		10,596,401
Unrestricted		53,903
Net position	$	12,906,220

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, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Total	Governmental Activities
Governmental activities					
Administration	$ 1,937,898	$ 158	$ -	$ 158	$ (1,937,740)
Engineering/Compliance	2,908,806	4,209,378	185,455	4,394,833	1,486,027
Air monitoring	712,446	111,892	88,122	200,014	(512,432)
Planning and grants	3,101,053	-	167,055	167,055	(2,933,998)
Total governmental activities	$ 8,660,203	$ 4,321,428	$ 440,632	$ 4,762,060	(3,898,143)

General Revenues:	
DMV surcharges	2,677,457
AB 923	1,338,729
City/County contribution	269,405
Investment Income	186,336
Other	989,420
Total general revenues	5,461,347
Change in net position	1,563,204
Net position - beginning of year	11,343,016
Net position - end of year	$ 12,906,220

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, 2017

		General
ASSETS		
Cash and investments	$	16,914,667
Receivables:		
Account receivables, net		434,750
Interest receivables		47,915
DMV fees receivable		724,539
Other receivables		49,766
Prepaid items		22,585
Total assets	$	18,194,222
Liabilities:		
Accounts payable	$	894,534
Accrued liabilities		158,039
Unearned revenue		2,484
Total liabilities		1,055,057
Deferred inflows of resources:		
Deferred judgment revenue		90,000
Total deferred inflows of resources		90,000
Fund Balances:		
Nonspendable		27,746
Restricted:		
AB2766		4,243,741
Moyer		648,879
AB923		4,816,582
General grants		887,199
Committed:		
Economic uncertainty		1,533,750
Building and facilities		600,000
OPEB funding		370,000
Unassigned		3,921,268
Total fund balances		17,049,165
Total liabilities, deferred inflows of resources, and fund balances	$	18,194,222

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, 2017

Fund Balances of General Funds	$	17,049,165
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.		2,255,916
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.		471,224
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.		90,000
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		1,028,308
Deferred inflows of resources - pension		(1,042,517)
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		(173,334)
Compensated absences - due in more than one year		(236,121)
Net OPEB obligation		(286,553)
Net pension liability		(6,249,868)
Net Position of Governmental Activities	$	12,906,220

See accompanying Notes to Basic Financial Statements.

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, 2017

		General
REVENUES:		
DMV surcharges	$	4,016,186
Grants		440,632
Licences and permits		3,260,781
Fines and fees		948,597
Investment earnings		186,336
Other revenues		1,280,875
Total revenues		10,133,407
EXPENDITURES:		
Current		
Administration		1,704,614
Engineering/Compliance		2,574,624
Air monitoring		585,114
Planning and grants		3,047,102
Capital outlay		215,700
Total expenditures		8,127,154
Net change in fund balances		2,006,253
FUND BALANCES:		
Beginning of year		15,042,912
End of year	$	17,049,165

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, 2017

Net Change in Fund Balances	$	2,006,253
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		215,700
Current year depreciation		(202,293)
Loss on disposal of asset		(4,468)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		90,000
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.		471,224
Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however pension expense is not recognized in the governmental funds.		(980,402)
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		3,748
Net OPEB obligation		(36,558)
Change in Net Position of Governmental Activities	$	1,563,204

See accompanying Notes to Basic Financial Statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

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.

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, 2017, the allowance was estimated to be $12,268.

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.

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.

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. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* – The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans 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 (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The District updated its disclosures related to other postemployment benefits as a result of implementation of GASB Statement No. 74.

- GASB Statement No. 77, *Tax Abatement Disclosures-* This Statement addresses the financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The requirements of this statement did not apply to the District for the current fiscal year.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* – The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement did not apply to the District for the current fiscal year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. New Pronouncements, Continued

- GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14* - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* The requirements of this statement did not apply to the District for the current fiscal year.

2. CASH AND INVESTMENTS

The District maintains cash and investments as summarized below:

Cash on hand	$	500
Deposits with financial institutions		65,684
Total Cash		66,184
Investment		
Investment with Monterey County Investment Pool		16,848,483
Total District Cash and Investments	$	16,914,667
Investments held in trust for other postemployment benefits	$	483,558

2. CASH AND INVESTMENTS, Continued

A. Cash with Banking Institutions

The carrying amount of the District's cash deposit with financial institutions was $65,684. Bank balances before reconciling items were a positive amount of $82,116 at June 30, 2017. 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

$16,848,483 at June 30, 2017 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. The District's investments in the County pool are not subject to levelling.

2. CASH AND INVESTMENTS, Continued

C. Investments held in Trust for Other Postemployment Benefits

The District established an irrevocable Section 115 OPEB Trust with Public Agency Retirement Services (PARS). As of June 30, 2017, the trust had a balance of $483,558. PAR' policy for allocation of invested assets is established and may be amended by the PARS Board of Trustees through a majority vote. It is the policy of the Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of specific asset classes. The investment policy has a long-term focus. It discourages both major shifts of asset class allocations over a short time span, and except for liquidity purposes, the use of cash equivalents. The following was the PARS' Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
Global Equity	60.00%
Global Fixed Income	35.00%
Liquidity	5.00%
Total	100%

PARS held no investments in any one organization that represented 5% or more of fiduciary net position.

Rate of return: For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expenses, was 9.38%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Non-depreciable assets:				
Construction in progress	$ -	$ 109,163	$ -	$ 109,163
Land	271,707	-	-	271,707
Total non-depreciable assets	271,707	109,163	-	380,870
Depreciable assets:				
Buildings and improvements	4,914,682	8,629	-	4,923,311
Office furniture and equipment	550,915	29,248	-	580,163
Equipment	514,688	8,663	(45,455)	477,896
Vehicle	476,012	59,997	(42,061)	493,948
Total depreciable assets	6,456,297	106,537	(87,516)	6,475,318
Less accumulated depreciation:				
Buildings and improvements	3,458,684	83,155	-	3,541,839
Office furniture and equipment	234,523	51,986	-	286,509
Equipment	429,984	32,519	(43,090)	419,413
Vehicle	357,836	34,633	(39,958)	352,511
Total accumulated depreciation	4,481,027	202,293	(83,048)	4,600,272
Total depreciable assets, net	1,975,270	(95,756)	(4,468)	1,875,046
Total capital assets	$ 2,246,977	$ 13,407	$ (4,468)	$ 2,255,916

3. CAPITAL ASSETS, Continued

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

Administration	$	90,632
Engineering and Compliance		48,459
Monitoring		63,202
Total depreciation expense	**$**	**202,293**

4. LONG-TERM LIABILITIES

Long-term liability balances and transactions for the year ended June 30, 2017 are as follows:

	Balance June 30, 2016	Additions	Reductions	June 30, 2017	Due Within One Year	Due More Than One Year
Other Liabilities						
Compensated absences	$ 413,202	$ 102,667	$ (106,414)	$ 409,455	$ 173,334	$ 236,121
Total	$ 413,202	$ 102,667	$ (106,414)	$ 409,455	$ 173,334	$ 236,121

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.

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, 2017, are summarized as follows:

	Miscellaneous	
Hire Date	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	7.000%	6.250%
Required employer contribution rates	8.880%	6.555%
Required unfunded liability payment	$ 226,798	$ 19

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 measurement period ended June 30, 2016 were $440,565.

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

As of June 30, 2017, the District reported net pension liability for its proportionate share of the net pension liability of the Plan was $6,249,868.

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, 2016, 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, 2016 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, 2015	0.06609%
Proportion - June 30, 2016	0.07223%
Change - Increase (Decrease)	0.00614%

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, 2017, the District recognized pension expense of $980,402. Pension expense is allocated to the functions based on full time equivalents. At June 30, 2017, 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	$ 471,224	$ -
Differences between expected and actual experience	15,754	3,610
Changes of assumptions	-	149,050
Changes in employer's proportion	236,797	464,870
Differences between the employer's contribution and the employer's proportionate share of contributions	-	424,987
Net differences between projected and actual earnings on plan investments	775,757	-
Total	$ 1,499,532	$ 1,042,517

$471,224 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, 2018. 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:	
2018	(305,535)
2019	(240,460)
2020	330,856
2021	200,930

6. PENSION PLAN, Continued

E. Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

		Miscellaneous
Valuation Date		June 30, 2015
Measurement Date		June 30, 2016
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)	7.50%
Mortality		Based on CalPERS specific Data, using Society of Actuaries Scale BB

(1) Net of pension plan administrative expenses.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 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.

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	20.00%	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	1.00%	-0.55%	-1.05%
Total	100%		

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)	$	10,099,784
Current Discount Rate - 7.65%		
Net Pension Liability (Asset)	$	6,249,868
1% Increase - 8.65%		
Net Pension Liability (Asset)	$	3,068,104

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, 2017, the District reported a payable of $0 for outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

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. As of June 30, 2017, the Plan had 31 active members and 10 retirees.

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	$ 153,372
Interest on net OPEB obligation	10,000
Adujstment to net OPEB obligation	(12,227)
Annual OPEB cost	151,145
Contribution made	(114,588)
Increase (decrease) in net OPEB obligation	36,557
Net OPEB obligation - beginning of the year	249,996
Net OPEB obligation - end of the year	$ 286,553

The District's contribution included a payment of $95,000 to the PARS Trust and employer paid premiums for retirees made directly to providers net of any reimbursements from the PARS Trust.

The District'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
6/30/2015	$ 106,466	$ 169,329	159.0%	$ 194,335
6/30/2016	144,014	88,353	61.4%	249,996
6/30/2017	151,145	114,588	75.8%	286,553

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 U.S. 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, 2017 was $541,363. 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, 2017, was 23 years.

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, 2017 was $17,172.

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, 2017 was $11,947; 2) A mail system lease expired July 2016, the monthly lease is $307, total lease expense for the year ended June 30, 2017 was $921; 3) A mail system lease expires August 2020, the monthly lease is $223 for the first twelve months and $324 for the next thirty-six months, total lease expense for the year ended June 30, 2017 was $2,005.

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

Year Ending 30-Jun	Lease Payments
2018	$ 5,574
2019	3,886
2020	4,857
Total	$ 14,317

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
DMV surcharges	$ 4,709,200	$ 3,871,200	$ 4,016,186	$ 144,986
Grants - EPA,CEC, Moyer	337,000	1,175,000	440,632	(734,368)
Licenses and permits	2,792,000	3,158,548	3,260,781	102,233
Fines and fees	1,159,882	936,060	948,597	12,537
Investment earnings	80,000	81,500	186,336	104,836
Other revenue	551,618	1,162,392	1,280,875	118,483
Total revenues	9,629,700	10,384,700	10,133,407	(251,293)
EXPENDITURES:				
Current:				
Administration	1,370,559	1,935,494	1,704,614	230,880
Engineering/Compliance	165,375	2,754,402	2,574,624	179,778
Air Monitoring	3,798,292	708,583	585,114	123,469
Planning & Grants	8,275,274	8,430,044	3,047,102	5,382,942
Capital outlay	567,500	610,827	215,700	395,127
Total expenditures	14,177,000	14,439,350	8,127,154	6,312,196
Net change in fund balance	$ (4,547,300)	$ (4,054,650)	2,006,253	$ 6,060,903
FUND BALANCE:				
Beginning of year			15,042,912	
End of year			$ 17,049,165	

3. SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued 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%	3,109,115	48.2%

4. SCHEDULE OF INVESTMENT RETURNS – PARS OPEB TRUST PROGRAM

Year*	Annual Money-weighted Rate of Return, Net of Investment Expenses
2017	9.38%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

Fiscal year:	2017	2016	2015
Measurement date:	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	0.07223%	0.06609%	0.07051%
Proportionate share of the net pension liability	$ 6,249,868	$ 4,536,128	$ 4,387,756
Covered payroll	$ 3,076,988	$ 3,103,566	$ 3,109,115
Proportionate share of the net pension liability as a percentage of covered payroll	203%	146%	141%
Plan's share of fiduciary net position as a percentage of total pension liability	74.06%	78.40%	79.82%

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 in fiscal year 2016.

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

6. SCHEDULE OF CONTRIBUTIONS LAST 10 YEARS*

	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 471,224	$ 440,564	$ 496,951
Contribution in relation to the actuarially determined contributions	(471,224)	(440,564)	(496,951)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 3,040,605	$ 3,076,988	$ 3,103,566
Contributions as a percentage of covered payroll	15.50%	14.32%	16.01%
Note to Schedule			
Valuation date:	6/30/2014	6/30/2013	6/30/2012

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