BAY AREA AIR QUALITY MANAGEMENT DISTRICT

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2016

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Gilbert Associates, Inc.
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To the Board of Directors
Bay Area Air Quality Management District
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Bay Area Air Quality Management District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Bay Area Air Quality Management District, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Transportation Fund for Clean Air (TFCA) Program, Mobile Source Incentive Program, Carl Moyer Program, & Other Programs – Schedule of Expenditures (Schedule) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

December 20, 2016

This discussion and analysis of the Bay Area Air Quality Management District (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the accompanying basic financial statements.

A. Financial Highlights

In June 2016, the Bay Area Air Quality Management District relocated its headquarters and operations to the Bay Area Metro Center located at 375 Beale Street. To finance ownership interest of its portion of the new facility, the District issued $30,000,000 in 2013 through a private placement of taxable Certificates of Participation Notes (COPs) with the Bay Area Headquarters Authority. The Air District is currently leasing its office space until the completion of the CC&R's and Condominium Plan. Further information can be found on page 30.

The following are some key financial highlights for the current fiscal year:

The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows at the close of the fiscal year 2015-16 by $146,114,314 (net position).

The District's net position increased by $24,908,940 from fiscal year 2014-15 due primarily to increased assets from program revenues and capital assets offset by a reduction in deferred inflows related to the accounting of net pension liabilities in the government-wide financial statements for Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

The District's governmental funds reported a fund balance of $211,654,783. The entire fund balance of the Special Revenue Fund in the amount of $114,330,298 is reserved for air quality grants and projects. The entire Capital Projects Fund of $29,684,881 represents the investment activities for the 2013 COPs. The $67,639,604 General Fund balance consists of $25,481,321 representing the assigned fund balance, $4,132,339 restricted, $10,218,833 committed or nonspendable and the remaining balance of $27,807,111 unassigned.

Table 1 presents the General Fund detail of fund balances as of June 30, 2016, and June 30, 2015.

Table 1. General Fund Balances as of June 30, 2016 and 2015

Category	General Fund June 30, 2016	General Fund June 30, 2015	Increase/ (Decrease)
Fund Balances:			
Nonspendable:			
Prepaid Expenses	$ 718,833	$ 91,475	$ 627,358
Restricted:			
Air Quality Grants and Projects	1,049,949	2,173,856	(1,123,907)
Post-Employment Benefits	3,082,390	2,953,191	129,199
Committed:			
Self-Funded Worker's Compensation	1,000,000	1,000,000	
Future acquisitions of 375 Beale Street	8,500,000	8,500,000	
Assigned:			
Building and Facilities	5,168,200	5,668,200	(500,000)
PERS Funding	600,000	800,000	(200,000)
Post-Employment Benefits	1,000,000	1,000,000	
Capital Equipment	2,727,100	2,867,100	(140,000)
Other Assigned	4,500,000		
Air Quality Grants and Projects	11,486,021	8,376,107	3,109,914
Unassigned:	27,807,111	25,145,307	2,661,804
Total Fund Balance	**$ 67,639,604**	**$ 58,575,236**	**$ 4,564,368**

B. Overview of the Financial Statements

This discussion and analysis is designed to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also includes required and other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District.

B. Overview of the Financial Statements, Continued

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. They provide information about the activities of the District as a whole and present a longer-term perspective of the District's finances. Government-wide financial statements include the Statement of Net Position and the Statement of Activities.

The Statement of Net Position reports all assets, deferred outflows of resources, liabilities owed by the District, and deferred inflows of resources on a full accrual basis. The difference between the assets held and deferred outflows of resources, and the liabilities owed and deferred inflows of resources, is reported as *Net Position*. The net position total is comparable to total stockholder's equity presented on the balance sheet of a private enterprise. 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 as of June 30, 2016 is presented on page 13.

The Statement of Activities reports the net cost of the District's activities by category and is also prepared on a full accrual basis. Under the full accrual basis of accounting, revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of the related cash flows. The focus of the Statement of Activities is on the cost of various work programs performed by the District. The statement begins with a column that identifies the total cost of these programs followed by columns that summarize the District's program revenues by major category. The difference between expenses and revenues represents the net cost or benefit of the District's work programs. General revenues are then added to the net cost/benefit to calculate the change in net position. The Statement of Activities is presented on page 14.

All of the District's activities are governmental in nature and no business-type activities are reported in these statements.

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 Bay Area Air Quality Management District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For governmental activities, these statements tell how these services were financed in the short-term and what is left over for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's major funds. The District maintains three governmental funds; the General Fund, Special Revenue Fund and Capital Projects Fund.

B. Overview of the Financial Statements, Continued

Governmental Funds

Governmental fund financial statements consist of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. Both are prepared using the modified accrual basis of accounting.

Balance Sheets prepared under the modified accrual basis of accounting have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. Specifically, cash and receivables that are deemed collectible within a very short period of time are reported on the balance sheet. Capital assets such as land and buildings are not reported in governmental fund financial statements. Fund liabilities include amounts that will be paid within a very short period of time after the end of the fiscal year. Long-term liabilities such as outstanding bonds are not included. The difference between a fund's total assets, deferred outflow of resources, total liabilities, and deferred inflows of resources represents the fund balance. The unassigned portion of fund balance represents the amount available to finance future activities. The District's governmental funds balance sheets can be found on page 15.

The Statement of Revenues, Expenditures, and Changes in Fund Balance include only revenues and expenditures that were collected in cash or paid with cash during the fiscal year or very shortly after the end of the fiscal year. The governmental funds Statements of Revenues, Expenditures, and Changes in Fund Balances can be found on page 17.

Since a different basis of accounting is used to prepare these statements, reconciliation is required to facilitate the comparison between the government-wide statements and the fund financial statements. The reconciliation of the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position is on page 16. The reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities can be found on page 18.

Notes to the Basic Financial Statements

The notes to the basic financial statements 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 basic financial statements can be found on pages 19 to 40.

Required and Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Air District's retirement pension liabilities held by California Public Employees Retirement System (PERS), other post-employment benefit (OPEB) liabilities, general fund and special revenue fund budget comparison schedules, and TFCA and Carl Moyer program expenditures on pages 41 to 47.

C. Government-Wide Financial Analysis

The government-wide financial analyses focus on net position and changes in net position of the District's governmental activities. Table 2 below shows a condensed Statement of Net Position as of June 30, 2016 compared to the fiscal year ended June 30, 2015.

Table 2. Statement of Net Position as of June 30, 2016 and June 30, 2015

	Governmental Activities June 30, 2016	Governmental Activities June 30, 2015	Increase/ (Decrease)
Current & Other Assets	$ 230,128,605	$ 218,302,557	$ 11,826,048
Capital Assets	29,310,870	23,767,303	5,543,567
Total Assets	**259,439,475**	**242,069,860**	**17,369,615**
Deferred Outflows of Resources	5,365,344	4,268,315	1,097,029
Current Liabilities	19,778,043	25,021,202	(5,243,159)
Noncurrent Liabilities	92,444,318	85,864,363	6,579,955
Total Liabilities	**112,222,361**	**110,885,565**	**1,336,796**
Deferred Inflows of Resources	6,468,144	14,247,236	(7,779,092)
Net Position			
Invested in Capital Assets	27,104,084	23,255,744	3,848,340
Restricted	118,462,637	111,886,360	6,576,277
Unrestricted net position	547,593	(13,936,730)	14,484,323
Total Net Positions	**$ 146,114,314**	**$ 121,205,374**	**$ 24,908,940**

At June 30, 2016 the District's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources by $146,114,314, an increase of $24,908,940 over the previous fiscal year.

As a result of GASB 68, the District is required to report its deferred outflows/inflows and pension liability related to its pension plan with CalPERS. The $24.9 million increase in net position is due to a cumulative net increase of $18.5 million in Total Assets and Deferred Outflows offset by a cumulative decrease in Total Liabilities and Deferred Outflows of $6.5 million. Additional information can be found on pages 38.

C. Government-Wide Financial Analysis, Continued

As noted earlier, total net position may serve over time as a useful indicator of the District's financial position. Restricted net position is to be used for specific programs and purposes according to legal terms and conditions. The remaining portion of the District's net position is unrestricted and at the end of the fiscal year had a balance of $547,593 which is a direct result of reporting the District's pension obligation related to GASB 68.

Table 3 below provides changes in net position for the fiscal year ending June 30, 2016 compared with the fiscal year ended June 30, 2015.

Table 3. Statement of Activities for Fiscal Years 2015-16 and 2014-15

	Governmental Activities FY 2015-16	Governmental Activities FY 2014-15	Dollar Increase/ (Decrease)	Percentage Increase/ (Decrease)
Revenues:				
TFCA/MSIF DMV Fees	$ 37,750,566	$ 36,914,007	$ 836,559	2%
Carl Moyer	11,204,627	8,851,906	2,352,721	27%
California Goods Movement Revenue	3,042,705	7,532,704	(4,489,999)	-60%
Permit Fees	37,369,120	33,637,139	3,731,981	11%
State Subvention	1,726,549	1,723,225	3,324	0%
Federal Grants	5,544,615	6,326,543	(781,928)	-12%
Penalties & Variance Fees	6,133,501	2,744,150	3,389,351	124%
Asbestos Fees	3,869,468	3,247,403	622,065	19%
Interest Revenue	800,086	303,750	496,336	163%
Other Rvenues	677,045	730,670	(53,625)	-7%
State Grants	885,916	578,683	307,233	53%
Special Environmental Projects	7,665	12,948	(5,283)	-41%
County Apportionments	28,218,285	25,859,398	2,358,887	9%
Total Revenues	**137,230,148**	**128,462,526**	**8,767,622**	7%
Expenses:				
General Government	67,863,055	62,992,005	4,871,050	8%
TFCA/MSIF, CMP, & Other programs	40,907,327	51,012,636	(10,105,309)	-20%
California Goods Movement Program	3,498,005	7,976,332	(4,478,327)	-56%
Debt Service	52,821	74,108	(21,287)	-29%
Total Expenses	**112,321,208**	**122,055,081**	**(9,733,873)**	-8%
Change in Net Position	**24,908,940**	**6,407,445**	18,501,495	289%
Net Position-beginning of year	**121,205,374**	**174,699,065**	**(53,493,691)**	-31%
Cumulative effect of change in accounting principles		**(59,901,136)**	**59,901,136**	
Net Position-ending of year	**$ 146,114,314**	**$ 121,205,374**	**$ 24,908,940**	21%

C. Government-Wide Financial Analysis, Continued

Governmental Activities

The objective of the Statement of Activities is to report the full cost of providing government services during the fiscal year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws funds from the general funds of the government.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year 2015-2016. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

Governmental functions of the District are predominately supported by fees, property taxes, subvention, grants, and penalties and settlements. The penalties and settlements are one-time revenues which are over and above the regular revenues directly related to the programs. The primary governmental activities of the District are: to advance clean air technology, ensure compliance with clean air rules, develop programs to achieve clean air, develop rules to achieve clean air, monitor air quality, permit review and Special Revenue Fund activities.

At June 30, 2016, the District's governmental activities reported ending net position of $146,114,314, an increase of $24,908,940 in comparison to the prior year. The primary reason for this increase is a result of increased program revenues and acquisition of capital assets; offset by the reduction in deferred inflows due to GASB 68 pension accounting.

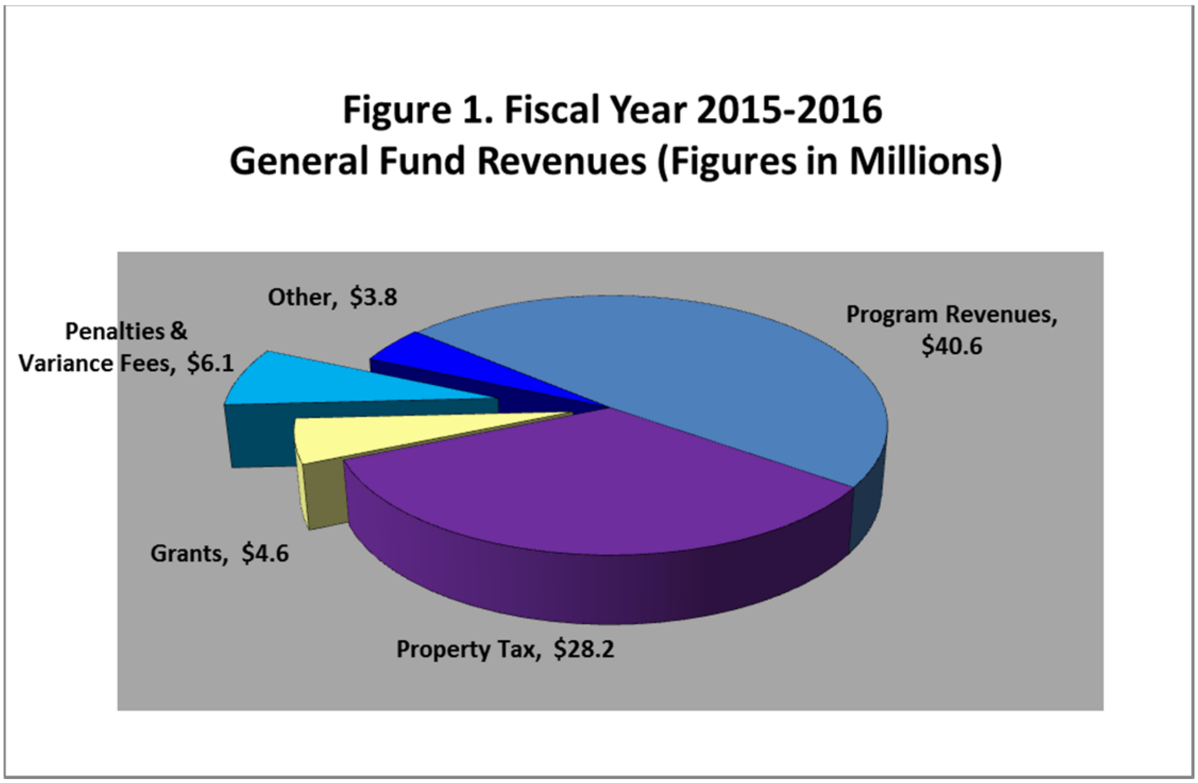
- Overall governmental revenues are $137,230,148; an increase of $8,767,622 from the prior year. The primary reason for the increase is due to growth in property tax valuations and permitting fees related to increased construction activities in the Bay Area. In addition, the District received a large settlement payment in the current year.

- Overall governmental expenditures are $112,321,208; a decrease of $9,733,873 over the prior year. The primary reason for this decrease is due to less grant program activities in the current year as compared to the prior year. TFCA/MSIF had less program distribution for projects in the current year and the Goods Movement program received less funding for projects in 2016 from the State of California.

- The cumulative effect of change in accounting principles of $59,901,136 is related to the first year of implementation for GASB 68; which required restatement of Beginning Net Position for pension liabilities in the prior year. For further information please see pages 33-37.

D. General Fund Financial Analysis

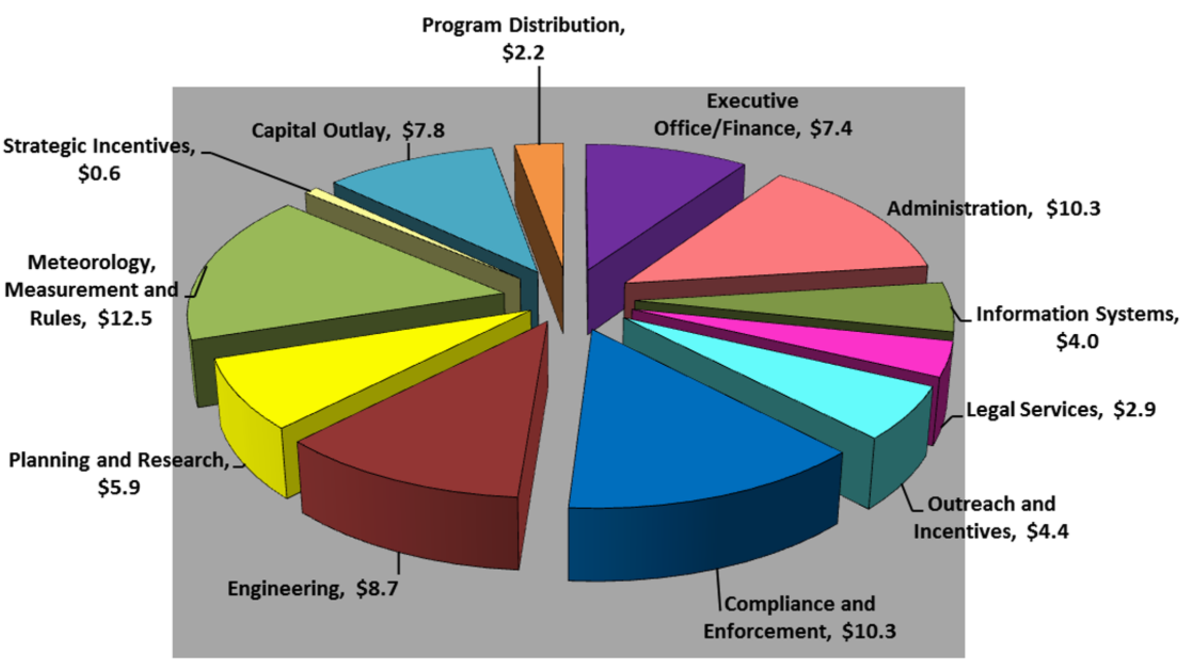
Figure 1 below provides a pie chart of the District's General Fund revenues (net of other financing sources) for fiscal year 2015-2016. The General Fund received total revenue of $83,392,632 in fiscal year 2015-16, an increase of $9,339,877 over fiscal year 2014-15. This increase is mainly comprised of increased revenues of $3.5 million in permit, asbestos, and other related fees resulting in an average rate increase of approximately 6.4% over the prior year, as well as, increased economic activities; $3.4 million in penalties. The remaining $2.4 million increase is related positive growth in construction and housing activities leading to significant increases in property tax revenue. Program Revenues include: Permit, AB2588, Title V, and Asbestos fees. Program revenues are the largest General Fund revenue source in fiscal 2015-16 ($40.6 million), followed by Property Tax ($28.2 million), Grants ($4.6 million), Penalties ($6.1 million), and Other revenues ($3.8 million).



D. General Fund Financial Analysis, Continued

Figure 2 below provides a graph of General Fund operating expenditures (net of other financing uses and debt service) for fiscal year 2015-16. General Fund operating expenditures totaled $77,352,239 which is an increase of $10,080,753 over fiscal year 2014-15. This increase resulted from a combined increase of purchase of parking structure; IT infrastructure equipment related to 375 Beal Street and personnel & benefit cost associated cost of living adjustment and increased premiums. General Fund expenditures represent the District's general government operating costs categorized into the following operating divisions: Compliance and Enforcement ($10.3 million), Engineering ($8.7 million), Administration ($10.3 million), Information Systems ($4.0 million), Meteorology, Measurements and Rules ($12.5 million), Executive Office & Finance ($7.4 million), Planning & Research ($5.9 million), Outreach & Incentives ($4.4 million), Strategic Incentives ($0.6 million) and Legal Services ($2.9 million). Program Distribution ($2.2 million) is not an operating division, but rather a category capturing expenditure used for special projects. General Fund operating revenues exceeded operating expenditures by $6,040,393 in fiscal year 2015-16.

Figure 2. Fiscal Year 2015-2016
General Fund Expenditures (Figures in Millions)



D. General Fund Financial Analysis, Continued

The General Fund is the operating fund of the District and at the end of the fiscal year, the total fund balance of the General Fund was $67.6 million. The assigned fund balance was $25.5 million, committed $9.5 million, restricted $4.1 million, non-spendable $0.7 million, and the remaining $27.8 million is unassigned. The unassigned fund balance represents 35.9% of the total General Fund expenditures, while the total fund balance represents 87.3% of the total fund expenditures. The District has available funds for unanticipated emergencies.

The FY 2015-16 adopted budget as compared to the actual expenditures and revenues reflects an increase in appropriations of $5.6 million and an increase in revenues of $14.3 million. The changes to the budget appropriations were the result of Governing Board actions, and carryover of unspent funds from FY 2014-15. The increase in actual revenues resulted from a significant penalty settlement, and increased economic activities related to property tax receipts and permitting fees.

E. Capital Assets

Capital assets include land, buildings, laboratory equipment, air monitoring stations, computers, office furniture and District fleet vehicles. As of June 30, 2016 the District's investment in capital assets was $29.3 million net of accumulated depreciation. This was an increase of $5.5 million from the prior year and mainly relates to purchase of parking structure at 435 Bryant Street and IT related infrastructure at 375 Beale Street and other satellite office locations.

F. Capital Projects Fund

In fiscal year 2014, a Capital Projects Fund was established to account for financial resources that are specifically related to the acquisition of the District's new office space noted on page 4. At June 30, 2016, the Capital Projects Fund reported a balance of $29,684,881 which represents the net proceeds being held in trust from issuing $30,000,000 through a private placement of taxable Certificates of Participation with the Bay Area Headquarters Authority. The Certificates will be held in an escrow account until acquisition of the new office space expected in 2017. The escrow account will pay interest due during the escrow period using the interest earned from the proceeds. Additional information can be found on pages 30-31 of the notes to the financial statements.

G. Economic Factors and Next Year's Budget

The District receives approximately 35% of its General Fund revenue from property taxes levied in nine Bay Area counties and 49% from permit fees charged to local businesses. Consequently, District revenues are impacted by changes in the state and local economy. The District takes a fiscally conservative approach to its budget and it strives to balance its budget within available current revenues. In an effort to recover a greater share of the costs of maintaining air quality, the District increased its permitting fees by approximately 6% in FY 2016-17. The District will continue to focus on long term financial planning to ensure the vitality and effectiveness of its programs.

H. Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Stephanie Osaze, Finance Manager, at 375 Beale Street, Suite 600, San Francisco, CA 94105.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 58,342,025
Restricted cash and cash equivalents	156,130,934
Receivables	12,070,622
Due from other governments	2,729,413
Prepaids, deposits, and other current assets	855,611
Capital assets:	
Non-depreciable	3,780,590
Depreciable, net	25,530,280
Total capital assets	29,310,870
Total assets	259,439,475
DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS	5,365,344
LIABILITIES	
Accounts payable	2,562,128
Accrued liabilities	2,310,807
Other current liabilities	355,586
Unearned revenue	11,166,189
Long-term liabilities:	
Due within one year:	
Compensated absences, current	3,000,000
Capital lease obligation, current	383,333
Due in more than one year:	
Compensated absences, noncurrent	1,181,813
Certificates of participation	30,000,000
Other postemployment benefits	4,839,742
Capital lease obligation, noncurrent	1,508,334
Net pension liability	54,914,429
Total liabilities	112,222,361
DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS	6,468,144
NET POSITION	
Net investment in capital assets	27,104,084
Restricted for air quality grants and projects	115,380,247
Restricted for post-employment benefits	3,082,390
Unrestricted net position	547,593
Total net position	$ 146,114,314

See accompanying notes to financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues		Net (Expense) Revenue and Change in Net Position
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental activities:				
Primary government	$ 67,863,055	$ 47,964,863	$ 8,301,358	$ (11,596,834)
California Goods Movement program	3,498,005		1,928,957	(1,569,048)
Interest	52,821			(52,821)
TFCA/MSIF, CMP, & other programs:				
TFCA/MSIF & other program distribution	29,702,700		38,720,036	9,017,336
Carl Moyer Program	11,204,627		11,204,627	
Total TFCA/MSIF, CMP, & other programs	40,907,327		49,924,663	9,017,336
Total governmental activities	$ 112,321,208	$ 47,964,863	$ 60,154,978	(4,201,367)
General revenues:				
County apportionment				28,218,285
Investment income not restricted for a specific program				800,086
Other				91,936
Total general revenues				29,110,307
Change in net position				24,908,940
Net position-beginning of year				121,205,374
Net position-end of year				$ 146,114,314

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 58,342,025			$ 58,342,025
Restricted cash and cash equivalents	3,082,390	$ 123,363,663	$ 29,684,881	156,130,934
Receivables	4,803,536	7,267,086		12,070,622
Due from other governments	2,729,413			2,729,413
Due from other funds	4,664,091			4,664,091
Prepaids, deposits, and other assets	855,611			855,611
Total assets	$ 74,477,066	$ 130,630,749	$ 29,684,881	$ 234,792,696
LIABILITIES				
Accounts payable	$ 1,667,900	$ 894,228		$ 2,562,128
Accrued liabilities	2,310,807			2,310,807
Due to other funds		4,664,091		4,664,091
Other liabilities	355,586			355,586
Unearned revenue	424,057	10,742,132		11,166,189
Total liabilities	4,758,350	16,300,451		21,058,801
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	2,079,112			2,079,112
FUND BALANCES				
Nonspendable:				
Prepaid items	718,833			718,833
Restricted:				
Air quality grants and projects	1,049,949	114,330,298		115,380,247
Postemployment benefits	3,082,390			3,082,390
Capital projects			$ 29,684,881	29,684,881
Committed:				
Future acquisition of 375 Beale Street	8,500,000			8,500,000
Self-funded workers' compensation	1,000,000			1,000,000
Assigned:				
PERS funding	600,000			600,000
Postemployment benefits	1,000,000			1,000,000
Building and facilities	5,168,200			5,168,200
Capital equipment	2,727,100			2,727,100
Air quality grants and projects	11,486,021			11,486,021
Other assigned	4,500,000			4,500,000
Unassigned	27,807,111			27,807,111
Total fund balances	67,639,604	114,330,298	29,684,881	211,654,783
Total liabilities, deferred inflows of resources, and fund balances	$ 74,477,066	$ 130,630,749	$ 29,684,881	$ 234,792,696

See accompanying notes to financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

RECONCILIATION OF THE
FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
WITH THE STATEMENT OF NET POSITION
JUNE 30, 2016

Amounts reported for governmental activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:

Total fund balances - total governmental funds	$ 211,654,783
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	29,310,870
Other long-term assets (receivables) are not available to pay for current-period expenditures and therefore, are reported as unavailable revenue in the funds.	2,079,112
The liabilities below are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(4,181,813)
Certificates of participation	(30,000,000)
Other postemployment benefits	(4,839,742)
Capital lease obligation	(1,891,667)
Net pension liability	(54,914,429)
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources are reported as follows:	
Deferred outflows of resources related to pensions	5,365,344
Deferred inflows of resources related to pensions	(6,468,144)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 146,114,314

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
TFCA / MSIF DMV fees		$ 37,750,566		$ 37,750,566
Permit fees	$ 36,732,188			36,732,188
County apportionment	28,218,285			28,218,285
California Goods Movement revenue		3,042,705		3,042,705
Carl Moyer Program		11,204,627		11,204,627
Federal grants	4,624,057	920,558		5,544,615
Penalties and variance fees	6,133,501			6,133,501
Asbestos fees	3,869,468			3,869,468
State subvention	1,726,549			1,726,549
State grants	837,004	48,912		885,916
Other revenues	677,045			677,045
Interest and investment gain (loss)	566,870		$ 233,216	800,086
Special environmental projects	7,665			7,665
Total revenues	83,392,632	52,967,368	233,216	136,593,216
EXPENDITURES				
General government:				
Program distribution	2,211,130			2,211,130
Executive office and finance	7,398,665			7,398,665
Administration	10,337,347			10,337,347
Information systems	4,041,243			4,041,243
Legal services	2,854,399			2,854,399
Outreach and incentives	4,396,121			4,396,121
Compliance and enforcement	10,340,643			10,340,643
Engineering	8,650,232			8,650,232
Planning and research	5,860,323			5,860,323
Meteorology, measurement and rules	12,461,643			12,461,643
Strategic incentives division	642,090			642,090
TFCA/MSIF, Carl Moyer, & other programs:				
Program distribution		28,623,852		28,623,852
Smoking vehicle		117		117
Intermittent control		1,352,343		1,352,343
TFCA administration		1,080,408		1,080,408
Vehicle buy-back		6,759,267		6,759,267
Mobile source incentive		494,512		494,512
Regional bikeshare		1,232,156		1,232,156
CarSharing incentive		48,644		48,644
Regional electric vehicle deployment		264,791		264,791
Enhanced mobile source inspection		1,260,673		1,260,673
California Goods Movement Program & other programs:				
Grant administration		621,202		621,202
Truck Program/LESBP		2,909,443		2,909,443
Debt Service:				
Principal	383,333			383,333
Interest	16,045		36,776	52,821
Capital outlay	7,759,025			7,759,025
Total expenditures	77,352,239	44,647,408	36,776	122,036,423
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,040,393	8,319,960	196,440	14,556,793
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease	2,275,000			2,275,000
Transfers in	748,975			748,975
Transfers (out)		(748,975)		(748,975)
Total other financing source (uses)	3,023,975	(748,975)		2,275,000
NET CHANGE IN FUND BALANCES	9,064,368	7,570,985	196,440	16,831,793
BEGINNING FUND BALANCES	58,575,236	106,759,313	29,488,441	194,822,990
ENDING FUND BALANCES	$ 67,639,604	$ 114,330,298	$ 29,684,881	$ 211,654,783

See accompanying notes to financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

RECONCILIATION OF THE
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$ 16,831,793
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
Capitalized expenditures are added back to fund balance	7,759,025
Depreciation expense is deducted from fund balance	(2,204,462)
Net book value of capital asset disposals is deducted from fund balance	(10,996)
Certain receivables recognized in the government-wide statements in previous years have been deemed uncollectible and must be written off to expense. Receivables written off were for:	
Permit and other miscellaneous fees	(21,118)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	636,932
The amounts below included in the statement of activities do not require the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Change in the liability for compensated absences	124,682
Change in the liability for other postemployment benefits	969,557
Change in the liability for capital lease obligation	(1,891,667)
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. The difference between accrual-basis pension costs and actual employer contributions was:	2,715,194
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 24,908,940

See accompanying notes to financial statements.

1. REPORTING ENTITY AND SIGNIFIGANT ACCOUNTING POLICIES

A. Reporting Entity

The Bay Area Air Quality Management District (District) was created by the California legislature in 1955. The District's structure, operating procedures and authority are established by Division 26 of the California Health and Safety Code.

The District's jurisdiction is limited principally to policing non-vehicular sources of air pollution within the Bay Area, primarily industry pollution and burning. Any company wishing to build or modify a facility in the Bay Area must first obtain a permit from the District to ensure that the facility complies with all applicable rules.

The District also acts as the program administrator for Transportation Fund for Clean Air (TFCA) funds and Mobile Source Incentive funds (MSIF) derived from Assembly Bill 434 and Assembly Bill 923, respectively. TFCA and MSIF funding comes from a $4 and $2 surcharge, respectively, on motor vehicles registered within the District's boundaries. TFCA funding may only be used to fund eligible projects that reduce motor vehicle emissions and support the implementation of the transportation and mobile source control measures in the 1994 Clean Air Plan. All projects must fall within the categories listed in State Law (Health and Safety Code Section 44241).

The Health and Safety Code requires the District to pass-through no less than 40% (forty percent) of the TFCA revenues raised within a particular county to that county's eligible, designated Program Manager. The remaining 60% (sixty percent) is for Regional Fund grants and is being allocated to projects on a competitive basis. Projects are evaluated using the District's Board adopted evaluation and scoring criteria. The District may receive reimbursement from TFCA funds, not to exceed 5% (five percent) of total funds, for administration of the program. TFCA activities are accounted for in the District's Special Revenue Fund.

The District includes seven counties: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, and Santa Clara; and portions of two other counties: Southwestern Solano and Southern Sonoma. The District is governed by a 22 (twenty-two) member Board of Directors that includes representatives from all of the above counties.

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

B. Basis of Presentation

Government-wide Statements – The Statement of Net Position and the Statement of Activities display information about the primary government (District). Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational needs of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

When both restricted and unrestricted resources are available for use, it is the District's policy to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications – committed, assigned, and then unassigned fund balances.

Fund Financial Statements – The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column.

C. Funds Presented

The District's major governmental funds are required to be identified and presented separately in the fund financial statements. The District reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund – This Fund is used by the District to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund – The Capital Projects Fund was established by the District to account for financial resources that are specifically intended for the acquisition of the District's new office space.

D. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 (ninety) days after year end, with the exception of revenues related to CMAQ Spare the Air, which are included in revenue if received within seven months after year end. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place.

Imposed non-exchange transaction revenues result from assessments imposed on non-governmental entities, including individuals (other than assessments imposed on exchange transactions), and the revenues are recognized in the period when use of the resources is required or first permitted. District-imposed non-exchange transactions are the TFCA/MSIF DMV fees, Permit fees, Title V Permit fees, Asbestos fees, Penalties and Variance fees, and Settlements.

Government-mandated non-exchange transactions result from one level of government providing resources to another level of government and requiring the recipient to use the resources for a specific purpose. Voluntary non-exchange transactions result from agreements entered into voluntarily by the parties thereto. Both types of non-exchange transaction revenues are treated in the same manner. Revenues are recognized when all applicable eligibility requirements are met. District transactions of both types include the Carl Moyer program, Lower Emission School Bus program, State Subvention, EPA federal grants, DHS federal grants, CMAQ Spare the Air grants, other grants, California Goods Movement program, Shore Power program, and various agreements with the nine Counties served by the District.

Those revenues susceptible to accrual are taxes, intergovernmental revenues, interest, charges for services, fines and penalties, and license and permit revenues.

Under the modified accrual basis, revenue from exchange and non-exchange transactions must meet both the “measurable” and “available” criteria to be recognized in the current period. On governmental fund financial statements, receivables that will not be collected within the availability period have been offset with unavailable revenue. Unearned revenue arises when assets are received before the revenue recognition criteria have been satisfied. Grants received before eligibility requirements have been satisfied are recorded as unearned revenue in the governmental fund financial statements (see Note 6).

E. Compensated Absences

The District’s policies provide compensation to employees for certain absences, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on any special event beyond the control of the District and its employees is accrued as employees earn those benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in a period in which such services are rendered or in which such events take place.

The District’s liability for compensated absences is recorded in the Statement of Net Position. District employees are allowed to accrue no more than four hundred and sixty hours of vacation as of the end of the calendar year. In the event of termination, the employees are reimbursed for all accumulated vacation at the time of separation from the District.

There are no restrictions regarding the accumulation of sick leave. On termination, employees are not paid for accumulated sick leave, but the accumulated sick leave is counted as service credit by the CalPERS pension plan administered by the State of California.

F. Pensions

The District participates in the Bay Area Air Quality Management District Miscellaneous Plan (the Plan), an agent multiple-employer defined benefit pension plan maintained by the California Public Employees' Retirement System (CalPERS). For purposes of measuring the net pension liability, pension expense, and deferred outflows/inflows of resources related to pensions, information about the fiduciary net position of the 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.

G. Use of Management Estimates

The preparation of the basic 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

H. Receivables

During the course of normal operations, the District carries various receivable balances for taxes, interest, and permitting operations. The District considers receivables to be fully collectible; accordingly no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations when that determination is made. During the year ending June 30, 2016, management deemed $21,118 of outstanding receivables to be uncollectible.

I. Capital Assets

The District's assets are capitalized at historical cost or estimated historical cost. District policy has set the capitalization threshold for reporting general capital assets at $5,000. Donated capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings, grounds & improvements	15-20 Years
Equipment	5-15 Years

J. Deferred Outflows/Deferred Inflows

In addition to assets, the financial statements report separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Contributions made to the District's pension plan after the measurement date but before the fiscal year-end are recorded as a deferred outflow of resources. Additional factors involved in the calculation of the District's pension expense and net pension liability include the differences between expected and actual experience, changes in assumptions, and differences between projected and actual investment earnings. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods. See Note 10 for further details related to these pension deferred outflows and inflows. In the fund financial statements, the District reports unavailable revenues as a deferred inflow of resources.

K. Net Position / Fund Balance

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt, if any, that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the District not restricted for any project or other purpose.

The governmental fund statements utilize a fund balance presentation. Fund balances are categorized as nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable Fund Balance – This category presents the portion of fund balance that cannot be spent because it is either not in a spendable form or it is legally or contractually required to be maintained intact.

Restricted Fund Balance – This category presents the portion of the fund balance that is for specific purposes stipulated by constitution, external resource providers, or enabling legislation.

Committed Fund Balance – This category presents the portion of the fund balance that can be used only for the specific purposes determined by a formal action (Resolution) of the District's highest level of decision making authority. For the District, this level of authority lies with the Board of Directors.

Assigned Fund Balance – This category presents the portion of the fund balance that is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. For the District, balances can be assigned by management or through the budget process. Other assigned balance represents amounts intended to be used for a Wood Burning Device and for Abatement Technology.

Unassigned Fund Balance – This category presents the portion of the fund balance that does not fall into restricted, committed, or assigned and are spendable.

L. Current Year GASB Implementation

For the year ended June 30, 2016, the District implemented GASB Statement No. 72 (GASB 72), Fair Value Measurement Application. The primary objective of GASB 72 is to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Note 2 includes certain disclosures required under GASB 72 as of June 30, 2016.

M. Future GASB Statement Implementation

In June of 2015, the GASB issued GASB Statement 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, with required implementation for the District during the year ended June 30, 2018. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB) by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. It will require employers to report a net OPEB liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB 75 is required to be implemented retroactively and will require a restatement of beginning net position.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Investments

The District pools cash from multiple sources and funds so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Cash, cash equivalents, and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	$ 58,342,025
Restricted cash and cash equivalents	156,130,934
Total cash, cash equivalents, and investments	$ 214,472,959

Cash, cash equivalents, and investments as of June 30, 2016, consist of the following:

Cash and investments in San Mateo Pooled Fund Investment Program	$ 181,705,688
Cash, cash equivalents, and investments with fiscal agent	32,767,271
Total cash and cash equivalents	$ 214,472,959

Cash in County Treasury

The District is a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code under the oversight of the Treasury of the County of San Mateo (the Treasury). The Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The Treasury is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes, or bonds; the State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

The District earns interest on a proportionate basis with all other investors. Interest is credited directly to the District's account on a quarterly basis. The pooled fund is collateralized at 102% by San Mateo County, but not specifically identified to any one depositor or in the District's name.

The District reports its investment in the County Pool at the fair value amount provided by the County. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

Investments Authorized by the District's Investment Policy

The table below identifies the investment types authorized for the District by the California Government Code Section 53601 or the Treasury investment policy, which was adopted by the District, whichever is more restrictive. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	**Maximum Maturity**	**Maximum Percentage of Portfolio**	**Maximum Investment in One Issuer**
U.S. Government Agency / Sponsored Enterprise Securities	7 years	100%	40%
U.S. Treasury Obligations	7 years	100%	100%
Asset-Backed Securities	5 years	20%	5%
Banker's Acceptances	180 days	15%	5%
Commercial Paper	270 days	40%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Collateralized Certificates of Deposit	1 year	15%	5%
Repurchase Agreements	92 days	100%	100%
Mutual Funds	N/A	10%	5%
Corporate Bonds, Medium-Term Notes, & Covered Bonds	5 years	30%	5%
Local Agency Investment Funds (LAIF)	N/A	Up to state limit	None

Investments Authorized by Debt Agreements

The District's cash, cash equivalents, and investments with fiscal agent in the Capital Projects Fund in the amount of $29,684,881 represent unspent proceeds of the 2013 Certificates of Participation at June 30, 2016, which are restricted for specific purposes under terms of the trust agreement.

Investments of debt proceeds held by the trustee are governed by provisions of the trust agreement, rather than the general provisions of the California Government Code or the District's investment policy.

Derivative Investments

The District did not directly enter into any derivative investments, and the County Pool was not holding derivative investments at June 30, 2016.

Disclosures Related to Interest Rate Risk and Credit Risk

Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and the District's investment policy limit the District's investments in banker's acceptances, commercial paper, negotiable certificates of deposit, collateralized certificates of deposit, and repurchase agreements to the rating of A1/P-1/F-1 or better by two of the three nationally recognized rating services (Standard & Poor's, Moody's Investors Service, or Fitch Ratings). Corporate securities are required to have a rating of AA or better at the time of purchase, aside from 25% of total corporate securities, which can have a rating of A. U.S. government securities are required to have a rating of AA, long-term, or A-1, short-term, or better by two of the three rating services. Asset-backed securities are required to have a rating of AAA or higher by two of the three rating services.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The District's cash, cash equivalents, and investments were categorized as follows at June 30, 2016:

	Ratings			
	Moody's	**S&P**	**Maturities**	**Fair Value**
Money market	Not Rated	Not Rated	Current	$ 29,684,881
AIG fixed annuity	Not Rated	Not Rated	Current	3,082,390
Investments in San Mateo Pooled Fund Investment Program	Aa1/P-1	AA/A-1	1.06 years	181,705,688
Total cash, cash equivalents, and investments				$ 214,472,959

Restricted Cash, Cash Equivalents, and Investments

The District's restricted cash, cash equivalents, and investments are $156,130,934 at June 30, 2016.

Included in this restricted balance is $29,684,881 for the 2013 Certificates of Participation unspent proceeds, $123,363,663 restricted for air quality grants and projects, and $3,082,390 restricted for postemployment benefits.

Fair Value Measurement

GASB 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

The investment in San Mateo Pooled Fund Investment Pool is subject to fair value measurement; however, it is not subject to the fair value hierarchy. The money market funds are classified as Level 1 because they are traded on the active market. The AIG Fixed Annuity is classified as Level 3 of the fair value hierarchy because it is a contract with AIG related to the restricted portion of OPEB funding.

3. RECEIVABLES

At June 30, 2016, the District had the following accounts receivable:

General Fund:		
Permit and other fees	$ 3,688,449	
County apportionments	866,694	
Interest	134,086	
Other	114,307	
Total General Fund		$ 4,803,536
Special Revenue Fund:		
TFCA DMV fees	4,677,951	
MSIF DMV fees	2,309,239	
Interest	279,896	
Total Special Revenue Fund		7,267,086
Total Accounts Receivable		$ 12,070,622

4. INTERFUND TRANSACTIONS

Current interfund balances arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly after the end of the fiscal year when revenues are received. At June 30, 2016, the General Fund was owed $4,664,091 by the Special Revenue Fund.

With Board approval, resources are transferred from one fund to another. The purpose of the majority of transfers is to move approved administrative revenue charged to restricted programs in the Special Revenue Fund to the General Fund. Interfund transfers for the year ended June 30, 2016 were as follows:

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Special Revenue Fund	$ 748,975

5. CAPITAL ASSETS

The District's capital assets were comprised of the following at June 30, 2016:

	Balance at 7/1/2015	Additions	Deletions	Transfers	Balance at 6/30/2016
Non-depreciable assets:					
Land		$ 1,018,521			$ 1,018,521
Construction in progress	$ 6,448,049	2,473,849		$ (6,159,829)	2,762,069
Total non-depreciable assets	6,448,049	3,492,370		(6,159,829)	3,780,590
Depreciable assets:					
Building and grounds	207,868	1,548,196			1,756,064
Leasehold improvements	2,901,708	6,621			2,908,329
Computers and network equipment	7,091,038	2,275,000			9,366,038
Production system	10,422,314			6,159,829	16,582,143
Motorized equipment	750,167	39,297	$ (219,921)		569,543
Lab and monitoring equipment	8,579,068	391,618			8,970,686
Furniture and other equipment	3,669,802	5,923			3,675,725
Total depreciable assets	33,621,965	4,266,655	(219,921)	6,159,859	43,828,528
Accumulated depreciation:					
Building and grounds	129,236	65,668			194,904
Leasehold improvements	2,695,091	10,114			2,705,205
Computers and network equipment	3,688,836	459,479			4,148,315
Production system	320,361	694,821			1,015,182
Motorized equipment	682,283	5,306	(208,925)		478,664
Lab and monitoring equipment	6,555,631	566,393			7,122,024
Furniture and other equipment	2,231,273	402,681			2,633,954
Total accumulated depreciation	16,302,711	2,204,462	(208,925)		18,298,248
Total depreciable assets, net	17,319,254	2,062,193	(10,996)	6,159,829	25,530,280
Total capital assets, net	$ 23,767,303	$ 5,554,563	$ (10,996)	$	$ 29,310,870

Depreciation expense by function for capital assets for the year ended June 30, 2016, is as follows:

Primary Government:		
Executive office	$	131,224
Administrative services		88,988
Legal services		70,599
Public information and outreach		51,327
Compliance enforcement		260,739
Engineering		223,164
Planning		162,306
Technical services		743,454
Information services		434,142
Strategic incentives		38,519
Total depreciation expense	$	2,204,462

6. UNEARNED / UNAVAILABLE REVENUE

Under both the accrual and modified accrual basis of accounting, revenues are recognized only when earned. Thus, the government-wide statement of net position and governmental funds offset cash received before the earning process is complete with a corresponding liability as unearned revenue.

Under the modified accrual basis of accounting, revenues are recognized when earned and susceptible to accrual. Revenues are considered susceptible to accrual if they are measurable and available to finance expenditures of the current period. Receivables not collected within the District’s period of availability and therefore not considered available to liquidate liabilities of the current period are offset by a corresponding deferred inflow of resources as unavailable revenue in the governmental fund financial statements.

At June 30, 2016, components of unearned and unavailable revenues reported were as follows:

	Unearned Revenue	Unavailable Revenue	Total
General Fund:			
Permits and licenses		$ 2,079,112	$ 2,079,112
Carl Moyer Program Administration	$ 385,192		385,192
Lawn and Garden	38,865		38,865
Subtotal General Fund	424,057	2,079,112	2,503,169
Special Revenue Fund:			
GMB – Administration	391,127		391,127
GMB – On-Road Projects	3,847,572		3,847,572
Shore Power Projects	3,811,797		3,811,797
Carl Moyer Program	1,560,301		1,560,301
Retro Level 3	1,131,335		1,131,335
Subtotal Special Revenue Fund	10,742,132		10,742,132
Total unearned and unavailable revenue	$ 11,166,189	$ 2,079,112	$ 13,245,301

7. LONG-TERM LIABILITIES

On November 7, 2013, the District issued $30,000,000 through a private placement of taxable Certificates of Participation (Certificates) with Bay Area Headquarters Authority (BAHA) to finance its ownership interest of approximately 75,000 square feet of office space at 375 Beale Street. The Certificates will be held by the Bank of New York Mellon Trust Company, N.A., as Trustee, in an escrow account until acquisition of the premises by the District, expected sometime in 2017. The escrow account will pay interest due during the escrow period, at an annual rate of 0.247%, using proceeds of the Certificates. Upon acquisition date, the escrow period ends and the District will begin to make base rental payments under the terms of the sublease described below. The District may prepay the Certificates, all or in part, without penalty. The District agreed to contribute at least $8,500,000 from the sale of its 939 Ellis Street office building, payable at acquisition date at 375 Beale Street, which will go towards its debt obligation.

The District and BAHA have also entered into a financing lease/sublease arrangement whereby at the date of acquisition the District will lease its office space to BAHA and BAHA will then sublease office space back to the District to secure payment on the Certificates. Under the terms of the agreement, total monthly payments have been predetermined over a 30-year amortization period, and the amount of such payments that relates to interest will be calculated based on the index rate period of a five year duration with an applicable spread of 120 basis points or 1.20% per annum. Total payments of principal and interest are structured as follows:

Rental Term Years	Total Annual Payments	Total Payments
1 – 10	$ 1,200,000	$ 12,000,000
11 - 30	1,370,000	24,660,000
		$ 36,660,000

Upon payment of all rental payments under the term of the sublease agreement, the title of the office space will transfer to the District. As of the date of this report, the acquisition of Beale Street had not yet occurred and as a result, the Certificates are still being held in an escrow account.

The District moved into the premises at 375 Beale Street in June 2016, however, the Purchase Option has not yet been exercised because certain actions necessary to creating the condominium have not yet been completed. There is an understanding that until it becomes possible for the District to exercise the Purchase Option, any payments accrued from July 1, 2016, when lease payments started, through the acquisition date will be applied against the District's principle associated with the Certificates. Refer to Note 8 regarding the office lease agreement at 375 Beale Street.

A schedule of changes in general long-term debt for the year ended June 30, 2016, is shown below:

	Balance July 1, 2015,	Additions	Deletions	Balance June 30, 2016	Due Within One Year
Governmental Activities					
Certificates of participation	$ 30,000,000			$ 30,000,000	
Compensated absences	4,501,562	$ 2,783,964	$ (2,979,031)	4,181,813	$ 3,000,000
Capital lease		2,275,000	(383,333)	1,891,667	383,333
Net pension liability	48,753,502	10,429,242	(4,268,315)	54,914,429	
OPEB liability	5,809,299	4,218,000	(5,187,557)	4,839,742	
Total	$ 89,064,363	$ 19,706,206	$ (12,818,236)	$ 95,827,651	$ 3,383,333

The long-term portion of compensated absences is liquidated by the General Fund and the long-term portion of the OPEB and net pension liabilities are liquidated by both the General Fund and the Special Revenue Fund. Certificates of participation will be partially liquidated with proceeds from the sale of 939 Ellis Street, held in the General Fund, and will be otherwise liquidated by the Capital Projects Fund.

Capital lease is related to hardware, software and services for IT infrastructure located at the new building at 375 Beale Street which includes but is not limited to servers, storage, Voice Over IP, computer networks, and security systems. The capital lease agreement had a total principal amount of $2,300,000 of which the District borrowed $2,275,000 with an annual payment of $383,333 over 6 years. The fair value of fixed assets purchased with the capital lease is $2,275,000. The capital lease expense during the year ended June 30, 2016 was 383,333.

8. OPERATING LEASES

Commitments under non-cancelable operating lease agreements for air-monitoring stations, vehicles, and office equipment provide for minimum annual rental payments as follows:

Year ended June 30,	
2017	$ 954,904
2018	746,563
2019	410,366
2020	296,959
2021	107,833
2022-2026	225,570
2027-2031	228,570
2032-2036	231,570
	$ 3,202,335

Air-monitoring station leases are renewable with minor escalations.

Rental expense for lease agreements above during the year ended June 30, 2016, was $1,461,582.

Additionally, the District sold its land and building at 939 Ellis Street on April 30, 2014. On the same date, the District entered a lease agreement with the new owners to lease the premises for a monthly rent of $91,925 through June 30, 2015. The lease allows for four 90-day extension periods through June 30, 2016, with monthly rent increasing to $114,906 on October 1, 2015. The District participated in this lease agreement until moving to the new premises in June 2016. Rental expense for the 939 Ellis Street building for the year ended June 30, 2016, was $1,309,484.

The office lease agreement for 375 Beale Street between the District and BAHA is dated April 19, 2012 which calls for monthly lease payments of $158,334 for an annual payment of $1,900,000. These will be the terms the District will follow until the Purchase Option has been exercised. The District did not start making rent payments at 375 Beale Street until July 1, 2016. Refer to Note 7 for additional information.

9. COUNTY APPORTIONMENT REVENUE

As a result of the passage of Proposition 13 in fiscal year 1979, the District no longer has the power to calculate property tax revenues due for each county. Instead, the District now receives remittances from the counties, which are calculated in accordance with Assembly Bill Number 8. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year. Property tax revenues are recognized by the District in the fiscal year they are assessed, provided that they become available as defined above.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. The term “unsecured” refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue and receivables in the fiscal year of levy, provided that they are collected within the fiscal year or within ninety days after year end.

County apportionment revenue recognized as of June 30, 2016, is as follows:

Alameda	$ 4,995,283
Contra Costa	3,231,216
Marin	1,342,632
Napa	926,228
Santa Clara	7,653,718
San Francisco	4,109,199
San Mateo	3,879,550
Solano	725,322
Sonoma	1,355,137
Total county apportionment revenue	$ 28,218,285

10. PENSION PLAN

Plan Description – All District employees are eligible to participate in the Bay Area Air Quality Management District Miscellaneous Plan (the Plan), an agent multiple-employer defined-benefit pension plan administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. CalPERS issues a publicly available report that includes a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found online at www.calpers.ca.gov.

Benefits Provided – Benefit provisions under the Plan are established by State statute and District resolution. The benefits are based on members' years of service, age, final compensation, and benefit formula. The California Public Employees' Pension Reform Act of 2013 (PEPRA) made significant changes to the benefit structure that primarily affect members first hired to perform CalPERS creditable activities on or after January 1, 2013. As a result of PEPRA, the Plan has two benefit structures: 1) CalPERS Miscellaneous Employee "2% at 55" for members first hired prior to January 1, 2013, to perform CalPERS creditable activities (Classic members), and 2) CalPERS Miscellaneous Employee "2% at 62" for members first hired on or after January 1, 2013, to perform CalPERS creditable activities (PEPRA members). The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Classic members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits, while PEPRA members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five 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, 2016, are summarized as follows:

	Classic	**PEPRA**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% - 2.418%	1.000% - 2.500%
Required employee contribution rates	7.0%	6.25%
Required employer contribution rates	14.745%	14.745%

Employees Covered – At June 30, 2016, the following employees were covered by the benefit terms for each Plan:

Inactive employees or beneficiaries currently receiving benefits	317
Inactive employees entitled to but not yet receiving benefits	92
Active employees	225
Total	634

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 are 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.

Net Pension Liability – The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. A summary of the principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase(1)	3.2% - 12.2%
Investment Rate of Return(2)	7.65%
Mortality(3)	Derived using CalPERS' Membership Data

(1) Depending on age, service and type of employment
(2) Net of pension plan investment and administrative expenses, including inflation
(3) The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, see the 2014 Experience Study on the CalPERS website.

Change in Assumption – GASB 68, states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.5% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount for administrative expense.

Discount Rate – The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan 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% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report that can be obtained from CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management 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 year ended June 30, 2018. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed 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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) 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 the Plan. 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 geometric rates of return are net of administrative expenses.

Asset Class	**Current Target Allocation**	**Real Return Years 1 – 10[a]**	**Real Return Years 11+[b]**
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	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.

Changes in the Net Pension Liability – The changes in the net pension liability for the Plan are as follows:

	Increase (Decrease)		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability (Asset)**
Balance at June 30, 2014	$ 257,597,346	$ 208,843,844	$ 48,753,502
Changes recognized for the measurement period:			
Service cost	4,405,494		4,405,494
Interest on the total pension liability	19,019,896		19,019,896
Changes of assumptions	(4,479,434)		(4,479,434)
Differences between expected and actual experience	(1,508,680)		(1,508,680)
Contributions - employer		4,268,315	(4,268,315)
Contributions - employee		2,372,392	(2,372,392)
Net investment income		4,871,767	(4,871,767)
Benefit payments, including refunds of employee contributions	(10,371,769)	(10,371,769)	
Administrative expense		(236,125)	236,125
Net changes	7,065,507	904,580	6,160,927
Balance at June 30, 2015	$ 264,662,853	$ 209,748,424	$ 54,914,429

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the District for the Plan, calculated using the discount rate for the Plan, as well as what the District's 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:

	Discount Rate –1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
District's net pension liability	$ 88,884,653	$ 54,914,429	$ 26,510,030

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

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – For the year ended June 30, 2016, the District recognized pension expense of $2,650,150. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 5,365,344	
Change in assumptions		$ (3,359,575)
Differences between expected and actual experience		(1,131,510)
Net differences between projected and actual earnings on plan investments		(1,977,059)
Total	$ 5,365,344	$ (6,468,144)

$5,365,344 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	$ (2,811,746)
2017	(2,881,746)
2018	(2,881,744)
2019	2,177,092

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description – The District sponsors a single-employer defined benefit healthcare plan administered by CalPERS. The District provides medical, dental, vision, and life insurance benefits to eligible retirees. Benefit provisions are established in accordance with the Employee Association Memorandum of Understanding (MOU) for represented employees and as adopted by Board Resolution for all other employees who retire from the District on or after attaining age 50 with at least 5 (five) years of service.

The District established an irrevocable trust to prefund the other postemployment benefit annual required contribution by participating in the California Employers' Retiree Benefit Trust (CERBT) program during the fiscal year ended June 30, 2009. The funds in the CERBT are held in trust and administered by the California Public Employees' Retirement System (CalPERS) as an agent multiple-employer plan. The District's Other Postemployment Benefits (OPEB) financial statements will be included in the CalPERS Comprehensive Annual Financial Report (CAFR). Copies of the CalPERS' CAFR may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy – The District funds on a pay-as-you-go basis with additional discretionary funding payments as approved by the Board. The District paid health care and life insurance benefit contributions based on when insurance premium payments were made, which were $2,187,557 for the year ended June 30, 2016. The additional discretionary funding payment approved by the Board for the year ended June 30, 2016, was $3,000,000. During the year ended June 30, 2016, two hundred twelve (212) retirees participated in the health insurance plan, one hundred eight-six (186) retirees participated in the dental plan, one hundred sixty-eight (168) retirees participated in the vision plan, and one hundred sixty four (164) retirees participated in the life insurance plan.

The District's annual 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 normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

The CERBT fund, which is an IRC Section 115 Trust, is set up for the purpose of (i) receiving employer contributions to prefund health and other postemployment benefits for retirees and their beneficiaries, (ii) investing contributed amounts and income therein, and (iii) disbursing contributed amounts and income therein, if any, to pay for costs of administration of the fund and to pay for health care costs or other postemployment benefits in accordance with the terms of the District's OPEB plan.

Annual OPEB Cost and Net OPEB Obligation – The ARC was determined as part of the June 30, 2015 actuarial valuation. The ARC rate was 13.4% of annual covered payroll. For the year ended June 30, 2016, the District's annual other postemployment benefit cost (expense) is $4,218,000. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation to the plan:

Annual required contribution	$ 4,588,000
Interest on net OPEB obligation	409,000
Amortization of net OPEB obligation	(779,000)
Annual OPEB cost (expense)	4,218,000
Contributions made	(5,187,557)
Decrease in net OPEB obligation	(969,557)
Net OPEB obligation-beginning of year	5,809,299
Net OPEB obligation-end of year	$ 4,839,742

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016, and the two preceding years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/14	$ 5,283,000	90.1%	$ 6,486,150
6/30/15	$ 4,212,000	116.1%	$ 5,809,299
6/30/16	$ 4,218,000	123.0%	$ 4,839,742

Funded Status and Funding Progress – The funded status of the plan as of the most recent actuary valuation date, June 30, 2015, was as follows:

Actuarial accrued liability (AAL)	$ 62,103,000
Actuarial value of plan assets	29,149,000
Unfunded actuarial accrued liability (UAAL)	$ 32,954,000
Funded ratio (actuarial value of plan assets/AAL)	46.9%
Covered payroll (active plan members)	$ 32,674,000
UAAL as a percentage of payroll	100.9%

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 costs 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.

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 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 short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The schedule of funding progress included in the required supplementary information presents multiyear information regarding whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

In the June 30, 2015, actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a 7.25% investment rate of return (net of administrative expenses), an annual medical cost trend rate of 5.0% - 7.2%, dental and vision trend rate of 3%, Medicare Part B trend rate of $104.90, and an inflation assumption of 3%. The EAN cost method spreads plan costs for each participant from the entry date to the expected retirement date. Under the EAN cost method the plan's normal cost is developed as a level amount over the participant's working lifetime. The actuarial value of plan assets was $29,149,000. The plan's unfunded actuarial accrued liability is being amortized using the level percentage of pay method over 20 (twenty) years with 12 (twelve) years remaining as of June 30, 2016.

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District manages and finances these risks by purchasing commercial insurance and has a $1,000 to $10,000 deductible for general and special property liability with limits of $10 million and $350 million, respectively. The District has a $500,000 deductible for workers' compensation with a $1 million limit. There have been no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the District's commercial insurance coverages in any of the past three years.

As of June 30, 2016, the District had no material claims outstanding for general liability or for workers' compensation cases.

13. COMMITMENTS AND CONTINGENCIES

The District is subject to litigation arising in the normal course of business. In the opinion of the District's Attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of the District.

The District receives Federal and State grant funds. The amounts, if any, of the District's grant expenditures which may be disallowed upon audit by the granting agencies cannot be determined at this time, although the District expects any such amounts to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Actuarial Valuation Date	Actuarial Asset Value (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2011	$ 12,450,000	$ 53,436,000	$ 40,986,000	23.3%	$ 31,896,000	128.5%
6/30/2013	$ 19,636,000	$ 49,660,000	$ 30,024,000	39.5%	$ 32,085,000	93.6%
6/30/2015	$ 29,149,000	$ 62,103,000	$ 32,954,000	46.9%	$ 32,674,000	100.9%

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S NET PENSION LIABILITY AND RELATED RATIOS AS OF JUNE 30, 2016 LAST 10 YEARS*

Bay Area Air Quality Management District Miscellaneous Plan

	Measurement Date	
	2015	**2014**
Total pension liability		
Service cost	$ 4,405,494	$ 4,509,169
Interest	19,019,896	18,144,590
Changes of assumptions	(4,479,434)	0
Difference between expected and actual experience	(1,508,680)	0
Benefit payments, including refunds of employee contributions	(10,371,769)	(9,459,410)
Net change in total pension liability	7,065,507	13,194,349
Total pension liability – beginning	257,597,346	244,402,997
Total pension liability – ending (a)	$ 264,662,853	$ 257,597,346
Plan fiduciary net position		
Contributions – employer	$ 4,268,315	$ 3,815,653
Contributions – employee	2,372,392	2,622,951
Net investment income	4,871,767	31,178,442 (1)
Benefit payments, including refunds of employee contributions	(10,371,769)	(9,459,410)
Administrative Expense	(236,125)	0
Net change in fiduciary net position	904,580	28,157,636
Plan fiduciary net position – beginning	208,843,844	180,686,208
Plan fiduciary net position – ending (b)	$ 209,748,424	$ 208,843,844
District's net pension liability – ending (a) - ending (b)	$ 54,914,429	$ 48,753,502
Plan fiduciary net position as a percentage of the total pension liability	79.25%	81.07%
District's covered-employee payroll	$ 33,133,499	$ 32,010,647
District's net pension liability as a percentage of covered-employee payroll	165.74%	152.30%

(1) Net of administrative expenses.

Notes to Schedule:

Change of benefit terms – There were no changes to the benefit terms.
Changes in assumptions – During the measurement period ending June 30, 2015, the discount rate changed from 7.50% (net of administrative expenses in 2014) to 7.65% to correct adjustment which previously reduced the discount rate for administrative expenses. There were no changes in assumptions during the measurement period ended June 30, 2014.

* - Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
AS OF JUNE 30, 2016
LAST 10 YEARS*

Bay Area Air Quality Management District Miscellaneous Plan

	Fiscal Year	
	2016	**2015**
Actuarially determined contribution	$ 5,365,344	$ 4,268,315
Contributions in relation to the actuarially determined contributions	(5,365,344)	(4,268,315
Contribution deficiency (excess)	$ 0	$ 0
District's covered-employee payroll	$ 34,119,169	$ 33,133,499
Contributions as a percentage of covered-employee payroll	15.73%	12.88%

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
REVENUES				
Permit fees	$ 29,175,000	$ 29,175,000	$ 31,350,081	$ 2,175,081
Title V permit fees	4,325,000	4,325,000	5,120,624	795,624
AB 2588 income	555,000	555,000	261,483	(293,517)
County apportionment	24,479,345	24,479,345	28,218,285	3,738,940
Federal grant - EPA	1,825,279	1,875,279	2,539,176	663,897
Federal grant - DHS	1,471,475	1,471,475	1,195,800	(275,675)
CMAQ Spare the Air	885,000	885,000	889,081	4,081
Penalties and variance fees	2,000,000	2,000,000	6,121,023	4,121,023
Hearing board fees	20,000	20,000	12,478	(7,522)
Asbestos fees	2,400,000	2,400,000	3,869,468	1,469,468
State subvention	1,722,000	1,722,000	1,726,549	4,549
State grants	544,838	939,537	837,004	(102,533)
Portable equipment registration program (PERP)	400,000	400,000	566,600	166,600
Special environmental projects		1,127,050	1,139,237	12,187
Interest	200,000	200,000	566,870	366,870
Miscellaneous	200,000	200,000	110,445	(89,555)
Total revenues	70,202,937	71,774,686	84,524,204	12,749,518
EXPENDITURES				
Executive office and finance	7,516,619	8,276,769	7,398,665	878,104
Administration	10,053,712	10,552,614	10,337,347	215,267
Information systems	4,852,183	5,032,184	4,041,243	990,941
Legal services	2,971,786	2,977,558	2,854,399	123,159
Outreach and incentives	4,316,785	5,160,868	4,396,121	764,747
Compliance and enforcement	11,877,806	11,913,892	10,340,643	1,573,249
Engineering	8,597,535	8,851,075	8,650,232	200,843
Planning and research	5,890,281	6,779,778	5,860,323	919,455
Meteorology, measurement and rules	12,266,905	13,163,178	12,461,643	701,535
Strategic incentives division	888,855	1,074,765	642,090	432,675
Program distribution		1,521,749	2,211,130	(689,381)
1% vacancy savings	(1,476,588)	(1,476,588)		(1,476,588)
Total current expenditures	67,755,879	73,827,841	69,193,836	4,634,005
Principal			383,333	(383,333)
Interest			16,045	(16,045)
Capital outlay	4,000,615	12,819,449	7,759,025	5,060,424
Total expenditures	71,756,494	86,647,290	77,352,239	9,295,051
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,553,557)	(14,872,604)	7,171,965	22,044,569
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease			2,275,000	2,275,000
Transfers in	303,585	303,585	748,975	445,390
NET CHANGE IN FUND BALANCE	$ (1,249,972)	$ (14,569,019)	10,195,940	$ 22,489,959
BEGINNING BUDGETARY FUND BALANCE			56,401,380	
ENDING BUDGETARY FUND BALANCE			$ 66,597,320	

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
REVENUES				
TFCA/MSIF DMV fee	$ 44,880,438	$ 58,823,551	$ 28,942,667	$ (29,880,884)
CA Goods Movement revenue & other programs	7,996,315	2,204,290	4,012,175	1,807,885
Carl Moyer Program	10,501,931	12,591,070	11,204,627	(1,386,443)
AB 434/923 others	944,457	944,457	1,236,914	292,457
Total revenues	64,323,141	74,563,368	45,396,383	(29,166,985)
EXPENDITURES				
TFCA/MSIF, Carl Moyer, & other programs:				
Program distribution	35,923,743	47,331,421	28,623,969	18,707,452
Intermittent control	1,323,354	1,744,670	1,352,343	392,327
TFCA administration	1,219,328	1,615,932	1,080,408	535,524
Vehicle buy-back	7,244,998	8,345,318	6,759,267	1,586,051
Mobile source incentive	564,940	597,385	494,512	102,873
Regional BikeShare	6,289,304	7,484,279	1,232,156	6,252,123
CarSharing incentive program	104,966	151,328	48,644	102,684
Regional electric vehicle deployment	986,770	2,418,483	264,791	2,153,692
Enhanced mobile source inspection	1,724,966	1,725,806	1,260,673	465,133
California Goods Movement Program & other programs:				
Grant administration	1,037,187	1,073,656	621,202	452,454
Truck Program/LESBP	7,600,000	1,771,505	2,909,443	(1,137,938)
Total expenditures	64,019,556	74,259,783	44,647,408	29,612,375
EXCESS OF REVENUES OVER EXPENDITURES	303,585	303,585	748,975	445,390
OTHER FINANCING USES				
Transfers out	(303,585)	(303,585)	(748,975)	(445,390)
NET CHANGE IN FUND BALANCE	$	$		$
BEGINNING BUDGETARY FUND BALANCE				
ENDING BUDGETARY FUND BALANCE			$	

Budgetary Principles

Through the budget process, the Board of Directors sets the direction of the District. The annual budget assures the most efficient and effective use of the District's economic resources, and establishes the priority of objectives that are to be accomplished during the fiscal year.

The annual budget covers the period from July 1 to June 30, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees, and other public agencies. In addition, it establishes the foundation of effective financial planning by providing resource allocation, performance measures and controls that permit the evaluation and adjustment of the District's performance.

The District follows these procedures in establishing the budgetary data reflected in the basic financial statements:

a) The Board of Directors adopts an annual budget by resolution prior to July 1 of each fiscal year. The annual budget indicates appropriations by fund and by program. The Board of Directors may also adopt supplemental appropriations during the year. At the fund level, expenditures may not legally exceed appropriations. The Air Pollution Control Officer (APCO) is authorized to transfer budgeted amounts between divisions and programs within any fund.

b) Budgets are adopted on a basis that is consistent with Generally Accepted Accounting Principles (GAAP) with the exception of recognition of certain revenues, as discussed below. Annual appropriated budgets are adopted for the General and Special Revenue funds.

c) Supplementary budgetary revenue and expenditure appropriations were adopted by the Board of Directors during the fiscal year. These supplemental appropriations have been included in the Budgeted Amounts - Final column of the Budgetary Comparison Schedules.

Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balances

The District's budgetary basis is consistent with Generally Accepted Accounting Principles (GAAP), with the exception of certain revenues that are recognized when earned in the GAAP-basis financial statements, but deferred until expended on the budgetary basis. Revenues in the Budget and Actual schedules have been presented on the budgetary basis to provide a more meaningful comparison of actual results with the budget. The following is a reconciliation between revenues on the budgetary basis and the GAAP basis reflected in the statement of revenues, expenditures, and changes in fund balance.

	General Fund	Special Revenue Fund
Revenues – Budgetary Basis	$ 84,524,204	$ 45,396,383
Revenue recognition adjustments	(1,131,572)	7,570,985
Revenues – GAAP Basis	$ 83,392,639	$ 52,967,368

SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM, MOBILE SOURCE INCENTIVE PROGRAM, CARL MOYER PROGRAM, & OTHER PROGRAMS
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016

Programs	Salaries and Benefits	Services and Supplies	Program Distribution	Total
Program distribution			$ 28,623,852	$ 28,623,852
Smoking vehicle		$ 117		117
Intermittent control	$ 504,660	847,683		1,352,343
TFCA administration	903,877	176,531		1,080,408
Vehicle buy-back	31,131	6,728,136		6,759,267
Mobile source incentive	467,257	27,255		494,512
Regional BikeShare	52,167	1,179,989		1,232,156
CarSharing incentive program	48,644			48,644
Regional electric vehicle deployment	91,991	172,800		264,791
Enhanced inspection program	1,256,607	4,066		1,260,673
Total expenditures	$ 3,356,334	$ 9,136,577	$ 28,623,852	$ 41,116,763