

Relax
We got this.™

Bay Area Air Quality Management District

Budget & Finance Committee Meeting

January 22, 2014



Gilbert Associates, Inc.
CPAs and Advisors

Relax. We got this.™

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AUDIT DELIVERABLES

I. FINANCIAL STATEMENTS

The audited financial statements and the audit report provide information on all funds and activities under the control of the Board of Directors.

Pages 1-2 **The Independent Auditor's Report on Financial Statements**

The auditor's opinion tells you that we audited your financial statements in accordance with professional standards and that the financial statements and the related disclosures are fairly stated.

The Financial Statements

Pages 4-11 **Management's Discussion and Analysis**

This narrative, written by District management, introduces the financial statements and provides an analytical overview of the District's financial performance for the year.

Pages 12-13 **Government-wide Statements**

The government-wide statements are designed to present the District's financial information from an overall perspective. In contrast to the fund-based statements which look only at the short-term, these statements look at the whole picture, both short and long-term, use a full accrual basis of accounting, and consolidate all funds into one statement.

The government-wide financial statements include:

- **Statement of Net Position**
- **Statement of Activities**

AUDIT DELIVERABLES (Continued)

I. FINANCIAL STATEMENTS (Continued)

Pages 14-17 **Fund-based Statements**

The fund-based statements use a current financial resources focus, which means that they measure whether events or transactions have changed the available resources in the short-term. These fund-based statements continue to be reported using the modified accrual basis of accounting.

Pages 18-34 **The Notes to the Financial Statements**

The notes to the financial statements explain the assumptions underlying the financial statements and provide additional information that is not available in the financial statements.

Required Supplementary Information

Page 35 Schedules of Funding Progress for PERS and OPEB

Pages 36-38 Budget and Actual Comparisons

- General Fund
- Special Revenue Fund

Supplementary Information

Page 39 Transportation Fund for Clean Air (TFCA) Program, Mobile Source Incentive Program, Carl Moyer Program, & Other Programs - Schedule of Expenditures

AUDIT DELIVERABLES (Continued)

II. OMB CIRCULAR A-133 AND TRANSPORTATION FUND FOR CLEAN AIR COMPLIANCE AUDIT REPORTS

Page 1 **Schedule of Expenditures of Federal Awards - \$7,009,170**

Page 2 **The Notes to the Schedule of Expenditures of Federal Awards**

The notes to the Schedule of Expenditures of Federal Awards (the Schedule) explain the assumptions underlying the Schedule and provide additional information that is not available in the Schedule.

Pages 3-7 **Auditor's Letters**

The various auditor's letters discuss the scope of the procedures we performed on the internal control structure and compliance with laws and regulations.

Pages 8-9 **Schedule of Audit Findings and Questioned Costs**

This section presents significant deficiencies and findings noted as a result of the audit.

- ⇒ Financial Statements: None
- ⇒ Federal Compliance: None
- ⇒ TFCA Compliance: None

Additionally, this section identifies the District's major federal programs.

Page 10 **Status of Prior Year Findings and Questioned Costs**

This page provides an update on significant deficiencies that were reported in the prior year's audit report.

- ⇒ No findings reported in prior year

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities and each major fund of the Bay Area Air Quality Management District (District) for the year ended June 30, 2013, and have issued our report thereon dated December 19, 2013. Professional standards require that we provide you with the following information related to our audit. We are providing the District's Budget and Finance Committee with information regarding the scope and results of the audit to assist the Committee in overseeing management's financial reporting and disclosure process. This information is intended solely for the use of the Board of Directors, Budget and Finance Committee, and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties. Below we summarize these required communications.

Area	Comments
<p>Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS), <i>Government Auditing Standards</i>, issued by the Comptroller General of the United States and OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>.</p> <p>The financial statements are the responsibility of management. As stated in our Contract, our responsibility is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.</p> <p>As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.</p> <p>Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.</p>	<p>We issued unmodified opinions on the financial statements and on the <i>Government Auditing Standards</i> and OMB Circular A-133 (Single Audit) reports of the District for the year ended June 30, 2013.</p>

Area	Comments
<p>Planned Scope and Timing of the Audit</p>	<p>We performed the audit according to the planned scope and timing previously communicated to you in our Contract.</p>
<p>Difficulties Encountered in Performing the Audit</p>	<p>We encountered no significant difficulties in dealing with management in performing and completing our audit. Management and staff were well prepared and cooperative.</p>
<p>Disagreements with Management</p> <p>For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.</p>	<p>We are pleased to report that no such disagreements arose during the course of our audit.</p>
<p>Management Representations</p>	<p>We have requested certain representations from management that are included in their letter to us dated December 19, 2013.</p>
<p>Management Consultations with Other Independent Accountants</p> <p>In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.</p>	<p>To our knowledge, there were no such consultations with other accountants.</p>
<p>Significant Accounting Policies</p> <p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our Contract, we will advise management about the appropriateness of accounting policies and their application.</p>	<p>The significant accounting policies used by the District are described in Note 1 of the financial statements.</p> <p>As described in Note 1 to the financial statements, the District implemented Statements of Governmental Accounting Standards (GASB) 63, and 65, in the year ended June 30, 2013. The implementation of these GASBs did not have a material impact on the District's financial statements.</p> <p>We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.</p>

Area	Comments
<p>Management Judgments and Accounting Estimates</p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and disclosures and because of the possibility that future events affecting them may differ significantly from those expected.</p>	<p>The most sensitive estimates and disclosures affecting the District’s financial statements were:</p> <ul style="list-style-type: none"> • Management’s estimate of the valuation of retirement and postretirement healthcare benefits expense and liabilities are based on actuarial projections. • Management’s estimate of the useful lives of capital assets is based on historical experience and industry standards. <p>We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. In addition, the related financial statement disclosures are neutral, consistent, and clear.</p>
<p>Corrected and Uncorrected Misstatements</p> <p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.</p>	<p>One passed-on journal entry detected as a result of our audit procedures was not recorded by management. Management, with our concurrence, has determined that the effect is immaterial to the financial statements taken as a whole.</p> <ul style="list-style-type: none"> • The entry would decrease the General Fund’s fund balance by \$162,273 to account for estimated claims liability loss reserves.
<p>Other Audit Findings or Issues</p>	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.</p>
<p>Required Supplementary Information</p> <p>Government Accounting Standards Board (GASB) requires certain supplementary information to accompany the District’s basic financial statements to be in conformity with generally accepted accounting principles. Such information has been subjected to limited procedures such as inquires of management about the methods of preparing the information and comparing the information for consistency with the basic financial statements, however, we do not express an opinion because of the limited nature of our procedures.</p>	<p>The following required supplementary information is required to accompany the District’s basic financial statements and subjected to limited procedures, but no opinion has been expressed:</p> <ul style="list-style-type: none"> • Management’s Discussion and Analysis • Schedules of Funding Progress • Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund & Special Revenue Fund
<p>Supplementary Information</p> <p>With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.</p>	<p>The supplementary information identified below is presented for purposes of additional analysis and is not a required part of the financial statements and in our opinion is fairly stated in all material respects in relation to the financial statements as a whole.</p> <ul style="list-style-type: none"> • Transportation Fund for Clean Air (TFCA) Program, Mobile Source Incentive Program, Carl Moyer Program & Other Programs – Schedule of Expenditures



Bay Area Air Quality Management District

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Budget & Finance Committee Meeting

January 22, 2014

Second Quarter Financial Report – Fiscal Year Ending 2014

Stephanie Osaze
Finance Manager



2nd Quarter Results FYE 2014

General Fund - Revenues

County receipts	\$ 7,659,288	(35%) of budgeted revenue.
Permit Fee receipts	\$ 19,912,936	(73%) of budgeted revenue.
Title V Permit Fees	\$ 3,008,853	(82%) of budgeted revenue.
Asbestos Fees	\$ 1,390,714	(73%) of budgeted revenue.
Toxic Inventory Fees	\$ 315,913	(53%) of budgeted revenue.
Penalties and Settlements	\$ 1,416,776	(83%) of budgeted revenue.
Miscellaneous Revenue	\$ 49,989	(42%) of budgeted revenue.
Interest Revenue	\$ 462,829	(167%) of budgeted revenue.



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Revenue Comparison

Prior Year vs. Current Year (YTD)

	<u>FYE 2013</u>	<u>FYE 2014</u>	<u>\$ DIFFERENCE</u>
County receipts	10,932,327	\$ 7,659,288	\$ (3,273,039)
Permit Fee receipts	18,487,649	\$ 19,912,936	\$ 1,425,287
Title V Permit Fees	2,959,114	\$ 3,008,853	\$ 49,739
Asbestos Fees	1,193,645	\$ 1,390,714	\$ 197,069
Toxic Inventory Fees	378,661	\$ 315,913	\$ (62,748)
Penalties and Settlements	570,481	\$ 1,416,776	\$ 846,295
Miscellaneous Revenue	41,540	\$ 49,989	\$ 8,449
Interest Revenue	100,875	\$ 462,829	\$ 361,954
TOTAL REVENUES	34,664,292	\$ 34,217,298	\$ (446,994)



2nd Quarter Results FYE 2014

General Fund - Expenses

• Personnel - Salaries	\$ 14,900,781	(49%) of budgeted expenditures.
• Personnel - Fringe Benefits	\$ 5,901,250	(43%) of budgeted expenditures.
• Operational Services and Supplies	\$ 6,140,579	(33%) of budgeted expenditures.
• Capital Outlay	\$ 1,358,045	(26%) of budgeted expenditures.



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Expenditure Comparison

Prior Year vs. Current Year (YTD)

	<u>FYE 2013</u>	<u>FYE 2014</u>	<u>\$ DIFFERENCE</u>
Personnel - Salaries (Consolidated)	\$ 15,376,265	\$ 15,479,599	\$ 103,334
Personnel - Fringe Benefits (Consolidated)	\$ 7,116,438	\$ 5,857,747	\$ (1,258,691)
Operational Services and Supplies	\$ 6,829,107	\$ 6,140,579	\$ (688,528)
Capital Outlay	\$ 906,064	\$ 1,358,045	\$ 451,981
TOTAL EXPENDITURES	\$ 30,227,874	\$ 28,835,970	\$ (1,391,904)



2nd Quarter Results FYE 2014

Investments

<u>Cash and Investments in County Treasury:</u>	
(Based on the Dec 2013 Account Balance)	
General Fund	\$26,035,423
TFCA	\$66,650,208
MSIF	\$43,742,263
Carl Moyer	\$4,272,201
CA Goods Movement	\$33,638,829
	<u>\$174,338,924</u>



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Year End Fund Balances

Fund Balances

	6/30/2012		6/30/2013		6/30/2014
	Audited		Audited		Budget
Building and Facilities	4,075,756		5,478,276		5,234,766
PERS Funding	1,500,000		2,016,169		1,926,550
Radio Replacement	75,000		100,808		
Capital Equipment	1,219,818		1,639,573		1,566,694
Worker's Compensation	1,000,000		1,344,113		
Post Employment Benefits	2,000,000		2,688,226		2,568,734
Economic Uncertainties	130,660		175,622		1,548,301
TOTAL SPECIAL RESERVES	\$ 10,001,234		\$ 13,442,787		\$ 12,845,044
UNDESIGNATED	3,441,554		5,059,722		-
TOTAL FUND BALANCES	\$ 13,442,788		\$ 18,502,509		\$ 12,845,044



Purchasing Reporting Requirements

- **Section 4.3 of the Purchasing Procedures states:**

Recurring payments of routine business needs such as utilities, licenses, office supplies etc. that are more than \$70,000 shall be presented in the Quarterly Financial Report.



Contract Limitations

Cumulative Vendor Payments in Excess of \$70,000 without Board Review

	VENDOR NAME	AMOUNT PAID (as of Dec 31, 2013)	Explanation
1	ALLIANT INSURANCE SERVICES	629,427	Various Insurance Policies
2	CA PUBLIC EMPLOYEE RETIREMENT SYSTEM	3,033,314	Health Insurance Plan
3	CA PUBLIC EMPLOYEE RETIREMENT SYSTEM	4,129,270	Retirement Benefits & 457 Supplemental Plan
4	CITY OF OAKLAND	70,835	Broadway Shuttle Advertisement Sponsor
5	COMPUCOM SYSTEMS, INC.	117,002	Microsoft license agreement
6	CSAC EXCESS INSURANCE AUTHORITY	370,905	Life Insurance Plan
7	CUBIC TRANSPORTATIONS SYSTEMS	154,846	Clipper Transit Subsidy
8	EMPLOYEE BENEFIT SPECIALISTS	149,324	Medical & Dependent Care Flexible Spending Plan
9	ENTERPRISE FLEET SERVICES	247,414	Fleet Leasing and Maintenance services
10	HARTFORD LIFE INS. CO.	215,758	Life Insurance Plan
11	PACIFIC GAS & ELECTRIC COMPANY	206,055	Utilities
12	PREFERRED BENEFIT INSURANCE AD	382,272	Dental Insurance Plan
13	RENNE SLOAN HOLTZMAN & SAKAI	132,409	Human Resources Consulting Services
14	U.S. BANK CORP.	78,881	District Credit Cards for various purchases
15	VERIZON WIRELESS	90,983	Cell phone services
16	WRIGHT EXPRESS FLEET SERVICES	79,444	Fuel for Fleet



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Second Quarter Results

ANY QUESTIONS?



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AGENDA: 6

Budget and Finance Committee

January 22, 2014

Air District Financial Overview

Jeff McKay

Deputy Air Pollution Control Officer



OUTLINE

- *FYE 2013:* Review
- *FYE 2014:* Status at mid-year
- *FYE 2015:* Preview of Topics for the Budget Process



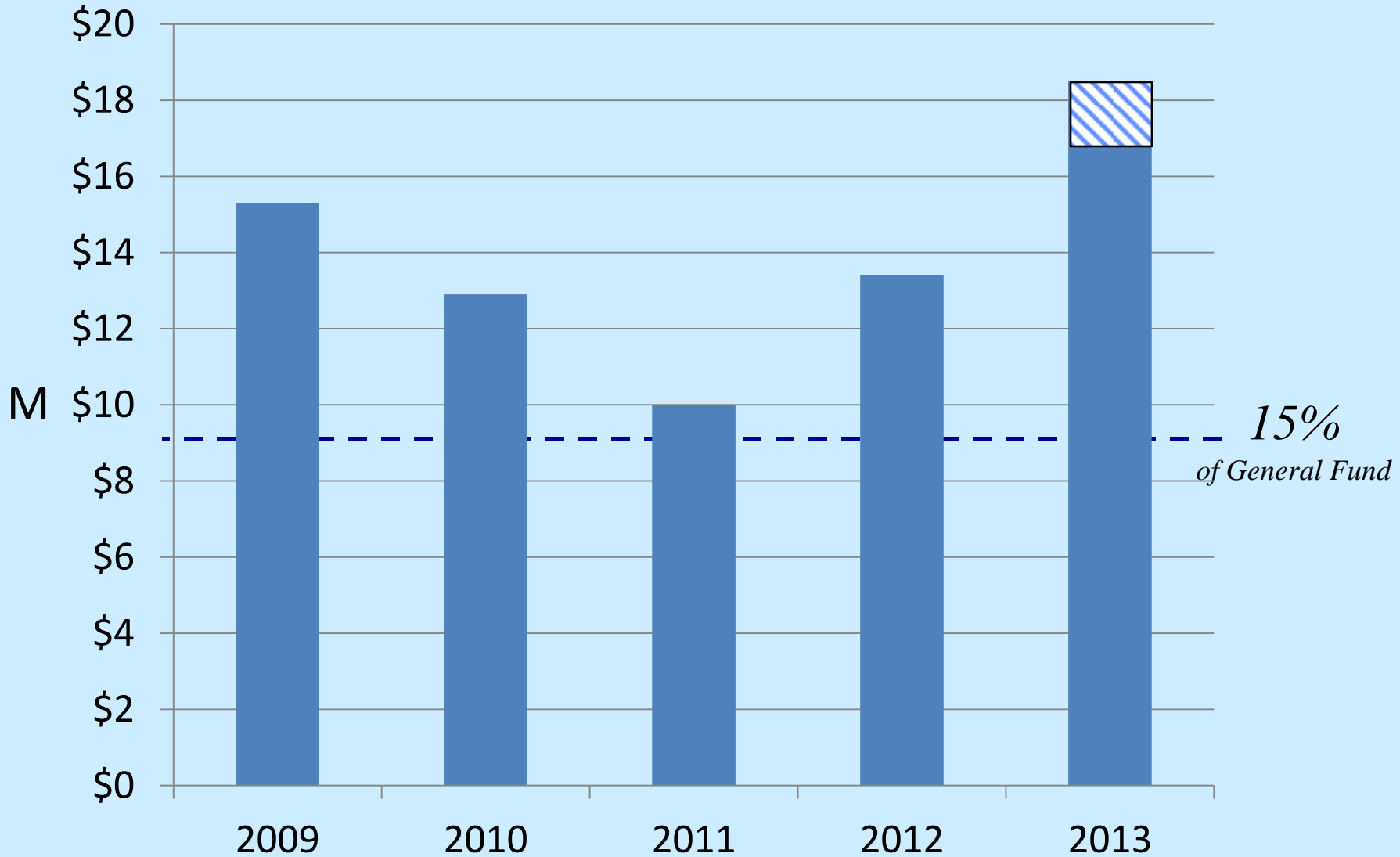
FISCAL YEAR END (FYE 2013)

- Recovery in Economic Activity
- Improved Permitting activity
- Improved Property Tax



DISTRICT RESERVE FUNDS

Audited Values





RESERVES

- Board Policy calls for Reserve minimum of \$9 M
- Projected Reserves for FYE 2014 over \$16 M
- Board has discussed increasing minimum Reserve



FYE 2014 MID-YEAR

FYE 2014 MID-YEAR



FISCAL YEAR END (FYE) 2014

Mid-Year Summary

- No use of Reserves budgeted or expected this year
- Strategic filling of some vacant positions
- Revenue and Expenditure remain on budget

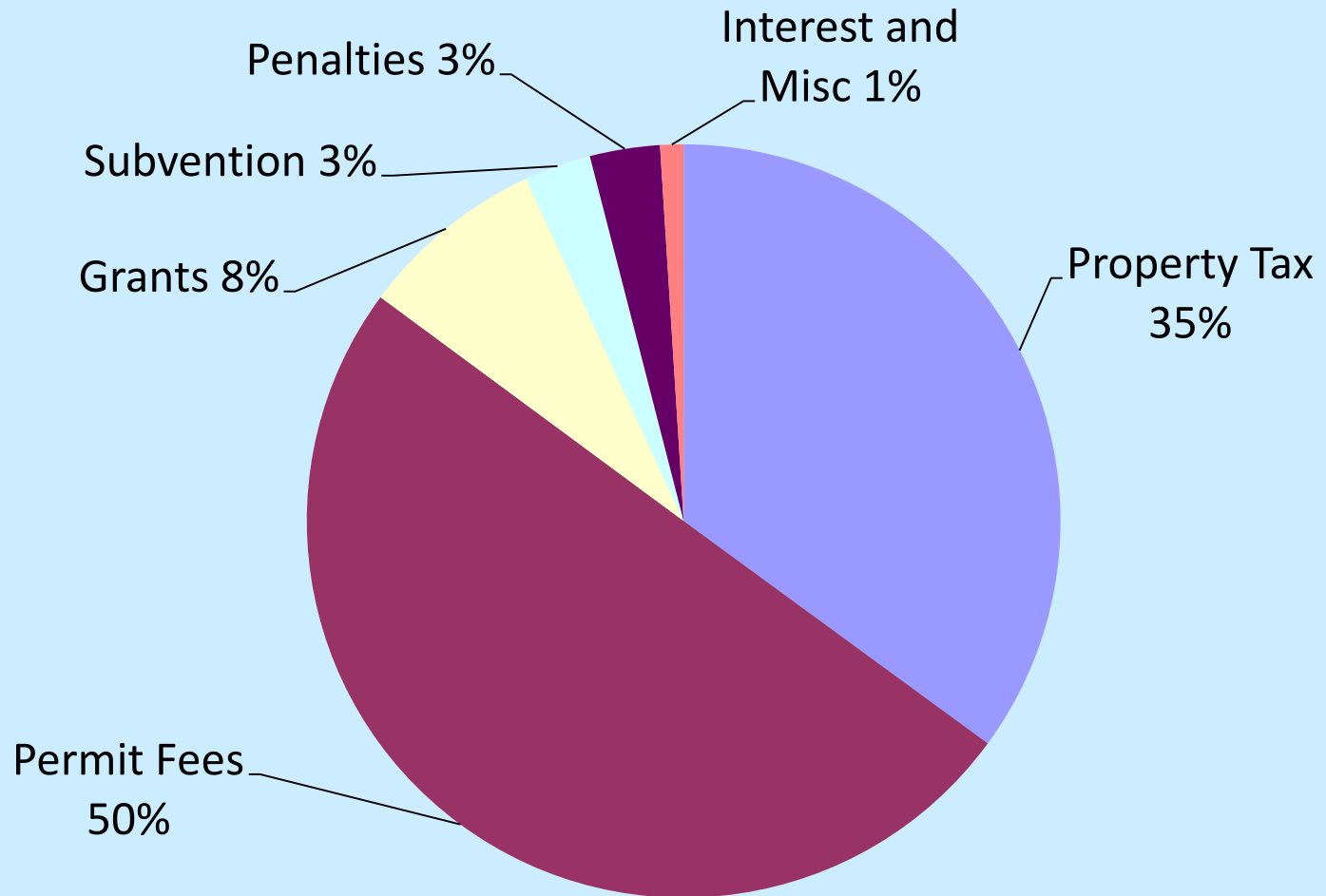


FISCAL YEAR END (FYE) 2014 Mid-Year Summary

- \$64 M General fund budget
- 365 Positions
- Reserves reflect prior Board direction

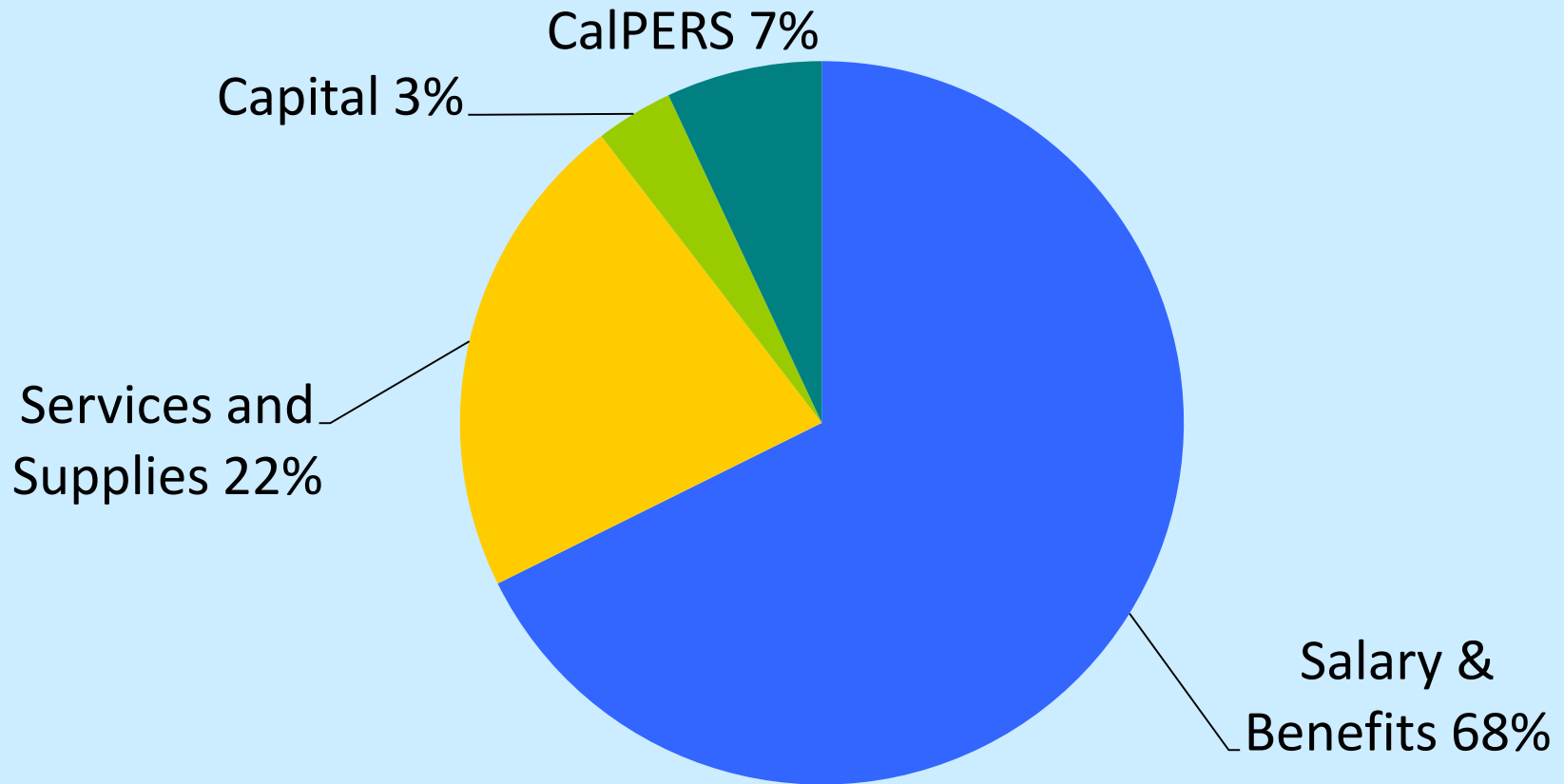


GENERAL FUND REVENUE SOURCES (FYE 2014 ADOPTED BUDGET)



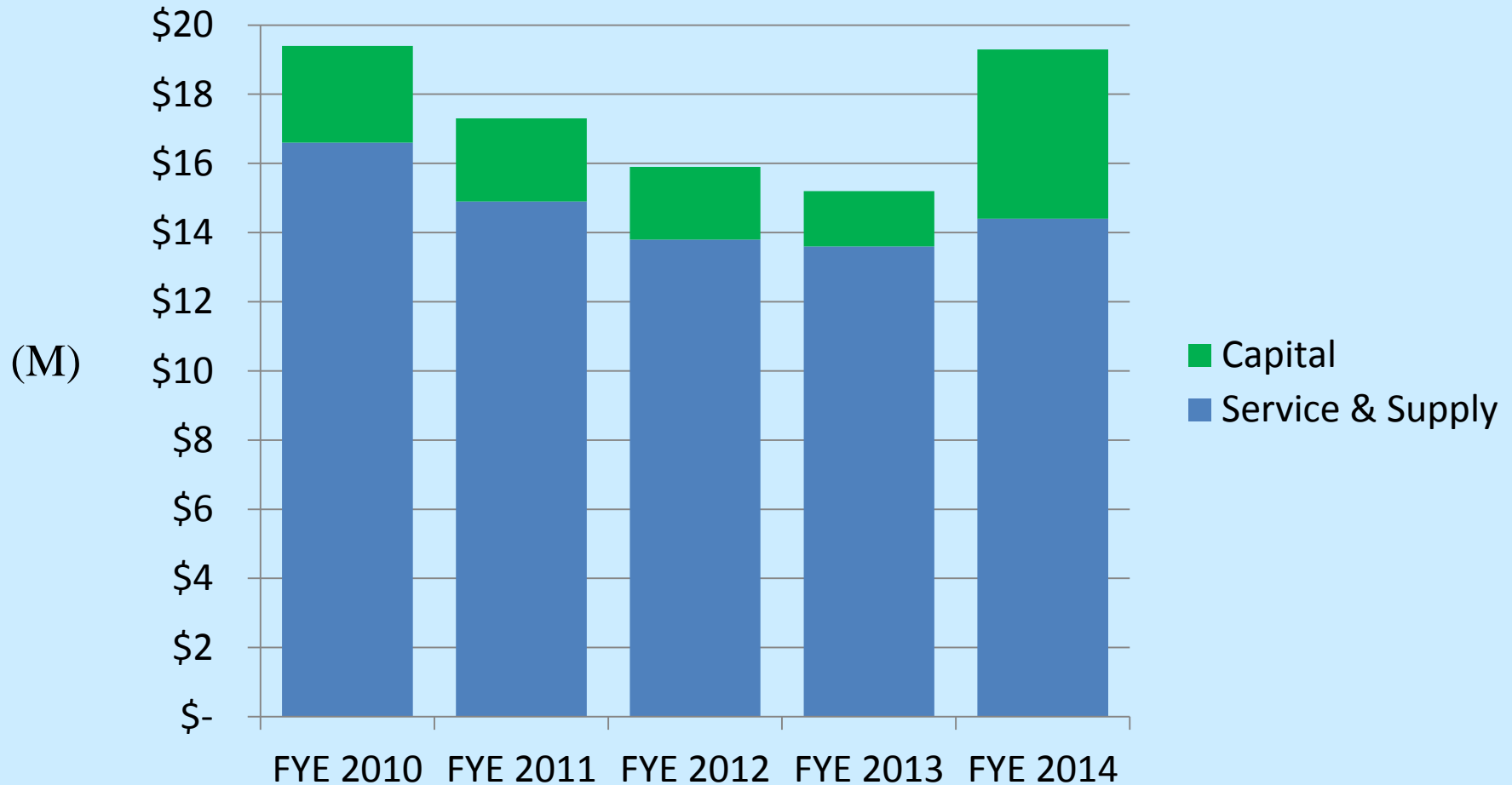


GENERAL FUND EXPENDITURES (FYE 2014 ADOPTED BUDGET)





TRENDS IN COST CUTTING EXPENSES FYE 2010 - 2014



	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Service & Supply	\$ 16.6	\$ 14.9	\$ 13.8	\$ 13.6	\$ 14.4
Capital	\$ 2.8	\$ 2.4	\$ 2.1	\$ 1.6	\$ 4.9



FYE 2015 BUDGET TOPICS

FYE 2015 BUDGET TOPICS



FYE 2015 BUDGET HIGHLIGHTS

- Hiring Strategy
- Unfunded Liabilities
- Cost Recovery



CURRENT VACANCY DISTRIBUTION

DIVISION	Positions	Vacancies	Percentage
Enforcement	103	18	18%
Administration	34	4	12%
Outreach	15	2	13%
Engineering	65	9	14%
Executive	15	1	7%
ISS	14	4	29%
Legal	14	1	7%
Planning	35	4	11%
Grants	20	4	20%
Technical	<u>52</u>	<u>7</u>	<u>13%</u>
TOTAL	365	54	15%



UNFUNDED LIABILITIES

- CalPERS Retirement
 - \$220 M Obligation : 73% Funded

- OPEB Medical
 - \$51 M Obligation : 37% Funded



COST RECOVERY

- Cost Recovery Policy
 - 6.4% annual fee increases
 - Regulated community gains predictable fees