



BOARD OF DIRECTORS  
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

CAROLE GROOM – CHAIRPERSON  
JOHN GIOIA  
LIZ KNISS  
MARK ROSS  
SHIRLEE ZANE

ERIC MAR – VICE CHAIRPERSON  
DAVE HUDSON  
NATE MILEY  
BRAD WAGENKNECHT

WEDNESDAY  
JANUARY 28, 2015  
9:30 A.M.

7<sup>th</sup> FLOOR BOARD ROOM  
939 ELLIS STREET  
SAN FRANCISCO, CA 94109

AGENDA

1. **CALL TO ORDER - ROLL CALL**

*The Committee Chair shall call the meeting to order and the Clerk of the Boards shall take roll of the Committee members.*

2. **PUBLIC COMMENT ON NON-AGENDA MATTERS**

*(Public Comment on Non-Agenda Items Pursuant to Government Code § 54954.3) Members of the public are afforded the opportunity to speak on any agenda item. All agendas for regular meetings are posted at Air District headquarters, 939 Ellis Street, San Francisco, CA, and on the Air District's website [www.baaqmd.gov](http://www.baaqmd.gov) at least 72 hours in advance of a regular meeting. At the beginning of the regular meeting agenda, an opportunity is also provided for the public to speak on any subject within the Board's authority. Speakers will be limited to three (3) minutes each.*

Staff/Phone (415) 749-

3. **APPROVAL OF THE MINUTES OF NOVEMBER 26, 2014**

Clerk of the Boards/5073

*The Committee will consider approving the draft minutes of the Board of Directors Budget and Finance Committee Meeting of November 26, 2014.*

4. **AIR DISTRICT FINANCIAL AUDIT REPORT– FISCAL YEAR ENDING 2014**

J. McKay/4629

[jmckay@baaqmd.gov](mailto:jmckay@baaqmd.gov)

*The Committee will receive a report of the Fiscal Year Ending 2014 audit.*

5. **SECOND QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING 2015**

J. McKay/4629

[jmckay@baaqmd.gov](mailto:jmckay@baaqmd.gov)

*The Committee will receive an update on the Air District's Second Quarter Financial Report.*

6. **SELECTION OF A CONTRACTOR FOR UPGRADE OF THE AIR DISTRICT FINANCIAL SYSTEM**  
**J. McKay/4629**  
[jmckay@baaqmd.gov](mailto:jmckay@baaqmd.gov)

*The Committee will consider recommending Board of Director's approval of a contract not to exceed \$1,358,036 to upgrade the Air District's financial system.*

7. **COMMITTEE MEMBER COMMENTS/ OTHER BUSINESS**

*Any member of the Board, or its staff, on his or her own initiative or in response to questions posed by the public, may: ask a question for clarification, make a brief announcement or report on his or her own activities, provide a reference to staff regarding factual information, request staff to report back at a subsequent meeting concerning any matter or take action to direct staff to place a matter of business on a future agenda. (Gov't Code § 54954.2)*

8. **TIME AND PLACE OF NEXT MEETING**

*Wednesday, February 25, 2015, Bay Area Air Quality Management District Office, 939 Ellis Street, San Francisco, California 94109 at 9:30 a.m.*

9. **ADJOURNMENT**

*The Committee meeting shall be adjourned by the Committee Chair.*

**CONTACT:**

**MANAGER, EXECUTIVE OPERATIONS**  
**939 ELLIS STREET, SAN FRANCISCO, CA 94109**  
**mmartinez@baaqmd.gov**

**(415) 749-5016**  
**FAX: (415) 928-8560**  
**BAAQMD homepage:**  
[www.baaqmd.gov](http://www.baaqmd.gov)

- To submit written comments on an agenda item in advance of the meeting. Please note that all correspondence must be addressed to the "Members of the Budget and Finance Committee" and received at least 24 hours prior, excluding weekends and holidays, in order to be presented at that Committee meeting. Any correspondence received after that time will be presented to the Committee at the following meeting.
- To request, in advance of the meeting, to be placed on the list to testify on an agenda item.
- To request special accommodations for those persons with disabilities notification to the Clerk's Office should be given in a timely manner, so that arrangements can be made accordingly.

Any writing relating to an open session item on this Agenda that is distributed to all, or a majority of all, members of the body to which this Agenda relates shall be made available at the District's offices at 939 Ellis Street, San Francisco, CA 94109, at the time such writing is made available to all, or a majority of all, members of that body.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
 939 ELLIS STREET, SAN FRANCISCO, CALIFORNIA 94109  
 FOR QUESTIONS PLEASE CALL (415) 749-5016 or (415) 749-4941**

**EXECUTIVE OFFICE:  
 MONTHLY CALENDAR OF AIR DISTRICT MEETINGS**

**JANUARY 2015**

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
<b>Board of Directors Personnel Committee</b> <i>(At the Call of the Chair)</i>	Monday	26	9:30 a.m.	Board Room
<b>Board of Directors Budget &amp; Finance Committee</b> <i>(Meets on the 4<sup>th</sup> Wednesday of each Month)</i>	Wednesday	28	9:30 a.m.	Board Room

**FEBRUARY 2015**

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
<b>Board of Directors Regular Meeting</b> <i>(Meets on the 1<sup>st</sup> &amp; 3<sup>rd</sup> Wednesday of each Month)</i> <b>CANCELLED</b>	Wednesday	4	9:45 a.m.	Board Room
<b>Advisory Council Meeting</b> <i>(Meets on the 2<sup>nd</sup> Wednesday of each Month)</i>	Wednesday	11	9:00 a.m.	Board Room
<b>Board of Directors Executive Committee</b> <i>(Meets on the 3<sup>rd</sup> Monday of each Month)</i>	Monday	16	9:30 a.m.	Board Room
<b>Board of Directors Regular Meeting</b> <i>(Meets on the 1<sup>st</sup> &amp; 3<sup>rd</sup> Wednesday of each Month)</i>	Wednesday	18	9:45 a.m.	Board Room
<b>Board of Directors Budget &amp; Finance Committee</b> <i>(Meets on the 4<sup>th</sup> Wednesday of each Month)</i>	Wednesday	25	9:30 a.m.	Board Room
<b>Board of Directors Mobile Source Committee</b> <i>(Meets on the 4<sup>th</sup> Thursday of each Month)</i>	Thursday	26	9:30 a.m.	Board Room

## MARCH 2015

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
<b>Board of Directors Regular Meeting</b> <i>(Meets on the 1<sup>st</sup> &amp; 3<sup>rd</sup> Wednesday of each Month)</i>	Wednesday	4	9:45 a.m.	Board Room
<b>Advisory Council Special Meeting</b> <i>(Meets on the 2<sup>nd</sup> Wednesday of each Month)</i>	Wednesday	11	9:00 a.m.	Board Room
<b>Board of Directors Executive Committee</b> <i>(Meets on the 3<sup>rd</sup> Monday of each Month)</i>	Monday	16	9:30 a.m.	Board Room
<b>Board of Directors Regular Meeting</b> <i>(Meets on the 1<sup>st</sup> &amp; 3<sup>rd</sup> Wednesday of each Month)</i>	Wednesday	18	9:45 a.m.	Board Room
<b>Board of Directors Climate Protection Committee</b> – <i>(Meets 3<sup>rd</sup> Thursday every other Month)</i>	Thursday	19	9:30 a.m.	Board Room
<b>Board of Directors Budget &amp; Finance Committee</b> <i>(Meets on the 4<sup>th</sup> Wednesday of each Month)</i>	Wednesday	25	9:30 a.m.	Board Room
<b>Board of Directors Mobile Source Committee</b> <i>(Meets on the 4<sup>th</sup> Thursday of each Month)</i>	Thursday	26	9:30 a.m.	Board Room

VJ – 1/22/15 (8:50 a.m.)

P/Library/Forms/Calendar/Calendar/Moncal

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
Memorandum

To: Chairperson Carole Groom and Members  
of the Budget and Finance Committee

From: Jack P. Broadbent  
Executive Officer/Air Pollution Control Officer

Date: January 15, 2015

Re: Approval of the Minutes of November 26, 2014

RECOMMENDED ACTION

Approve the attached draft minutes of the Budget and Finance Committee meeting of November 26, 2014.

DISCUSSION

Attached for your review and approval are the draft minutes of the Budget and Finance Committee meeting of November 26, 2014.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Sean Gallagher  
Reviewed by: Maricela Martinez

Attachment: Draft Minutes of the Budget and Finance Committee Meeting of November 26, 2014

## AGENDA: 3 – ATTACHMENT

Draft Minutes – Budget and Finance Committee Meeting of November 26, 2014

Bay Area Air Quality Management District  
939 Ellis Street  
San Francisco, California 94109  
(415) 749-5073

### **DRAFT MINUTES**

Summary of Board of Directors  
Budget and Finance Committee Meeting  
Wednesday, November 26, 2014

#### **1. Call to Order – Roll Call**

Budget and Finance Committee (Committee) Chairperson Carole Groom called the meeting to order at 9:30 a.m.

Present: Committee Chairperson Carole Groom; Vice-Chairperson Eric Mar; Board of Directors (Board) Chairperson Nate Miley; and Directors David Hudson, Liz Kniss, Mark Ross and Brad Wagenknecht.

Absent: Directors John Gioia and Shirlee Zane.

Also Present: None.

#### **2. Public Comment Period**

Julio Focaracci addressed the Committee regarding the pervasive nature and public health impacts of wood smoke and in support of a moratorium on residential wood burning and increased enforcement of current regulations.

NOTED PRESENT: Board Chairperson Miley was noted present at 9:34 a.m.

Jack Broadbent, Executive Officer/Air Pollution Control Officer (APCO), reported that staff will deliver a presentation on the matter at the next meeting of the Board.

#### **3. Approval of Minutes of April 23, 2014**

Committee Comments: None.

Public Comments: No requests received.

Committee Action:

Director Hudson made a motion, seconded by Director Ross, to approve the Minutes of April 23, 2014; and the motion carried by the following vote of the Committee:

AYES: Groom, Hudson, Kniss, Miley, Ross and Wagenknecht.

NOES: None.  
ABSTAIN: None.  
ABSENT: Gioia, Mar and Zane.

#### **4. Fourth Quarter Financial Report – Fiscal Year Ending (FYE) 2014**

Jeff McKay, Deputy APCO, introduced the topic and Stephanie Osaze, Finance Manager, who gave the staff presentation *Fourth Quarter Financial Report – FYE 2014*, including an overview of general fund revenues and expenses, revenue and expense year-over-year comparisons, investments, fund balances, purchasing reporting requirements, and cumulative vendor payments in excess of \$70,000.

##### Committee Comments:

The Committee and staff discussed County and permit fee receipts; the importance of a future budget policy decision regarding the best use of overages; and the nature of the Clipper transit subsidy listed in slide 9, *FYE 2014 Vendor Payments*, and whether it is used and tracked by staff.

NOTED PRESENT: Director Mar was noted present at 9:52 a.m.

Public Comments: No requests received.

Committee Action: None; receive and file.

#### **5. First Quarter Financial Report –FYE 2015**

Ms. Osaze, gave the staff presentation *First Quarter Financial Report – FYE 2015*, including an overview of general fund revenues and expenses, revenue and expense year-over-year comparisons, investments, fund balances, purchasing reporting requirements, and cumulative vendor payments in excess of \$70,000.

The Committee and staff discussed, at slide 2, *1<sup>st</sup> Quarter Results FYE 2015*, the sense that the numbers reflect the improved economic climate and the commendable work of the lawyer involved in the settlement that resulted in the funds listed in the Penalties and Settlements line item.

Ms. Osaze concluded the presentation.

##### Committee Comments:

The Committee and staff discussed in what quarter a recent fine imposed on Tesoro would be included in the budget.

Public Comments: No requests received.

Committee Action: None; receive and file.

**6. 939 Ellis Street Sale Proceeds**

Mr. McKay gave the staff presentation *939 Ellis Street Sale Proceeds*, including an overview of the sale and recommendations.

Committee Comments:

The Committee and staff discussed the staff intention to transfer all of the remaining sale proceeds, not just the already committed \$8.5 million, to the General Fund Building Reserves; concerns relative to avoiding unnecessarily high costs for ancillary needs related to the move, such as furniture acquisition; the possibility of convening a public meeting at 375 Beale in the immediate future and prior to the Air District move; a construction update; Air District staff oversight of the project; the cause for the construction delay and cost overruns; the possibility of a building tour instead of a public meeting because of safety concerns and related cost; and the predictable nature of construction delays and cost overruns.

Public Comments: No requests received.

Committee Action:

Director Wagenknecht made a motion, seconded by Director Hudson, to recommend the Board:

1. Appropriate \$1,103,103 in the current fiscal year to cover the monthly base rent; and
2. Transfer remaining sale proceeds to the General Fund Building Reserves to:
  - a. Use towards purchase of 375 Beale Street Office Space (minimum of \$8.5M has been committed); and
  - b. Finance current and future building needs and obligations.

The motion carried by the following vote of the Committee:

AYES: Groom, Hudson, Kniss, Mar, Miley, Ross and Wagenknecht.  
NOES: None.  
ABSTAIN: None.  
ABSENT: Gioia and Zane.

**7. Committee Member Comments/Other Business:** None.

**8. Time and Place of Next Meeting**

Wednesday, January 28, 2015, at Bay Area Air Quality Management District Headquarters, 939 Ellis Street, San Francisco, CA 94109 at 9:30 a.m.



9. **Adjournment:** The meeting adjourned at 10:14 a.m.

Sean Gallagher  
Clerk of the Boards

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

Memorandum

To: Chairperson Carole Groom and Members  
of the Budget and Finance Committee

From: Jack P. Broadbent  
Executive Officer/APCO

Date: January 5, 2015

Re: Air District Financial Audit Report Fiscal Year Ending 2014

RECOMMENDED ACTION

None; receive and file.

BACKGROUND

Pursuant to the Section II.2.1 of the Administrative Code, the District is required to have an annual independent financial audit. The Independent Auditors, Gilbert Associates, Inc. completed the Financial Audit Report of the Air District's Financial Statements for the Fiscal Year Ending 2014. The Independent Auditors also completed the Financial Audit Report of the OMB Circular A-133 and Transportation Fund for Clean Air Compliance Reports for the Fiscal Year Ending 2014.

DISCUSSION

The Air District's independent auditors completed their audit of the Air District's financial records and activities for the year ended June 30, 2014 and issued an "unqualified opinion" or clean opinion on the financial statements. Attached are the audit reports being presented along with a brief summary:

**1. *Basic Financial Statements***

The statements are prepared in conformity with generally accepted accounting principles generally accepted. The purpose of the statements is to convey financial information to external customers/users. The statements report the Air District's annual operations and demonstrate financial compliance with legal requirements. The report on the basic financial statements is unqualified with no reportable conditions, no instances of non-compliance, and no financial statement findings noted.

**2. *OMB Circular A-133 and Transportation Fund for Clean Air Compliance Report***

This report addresses the auditors' consideration of the Air District's internal control over financial reporting, and results of auditor's tests of Air Districts compliance with provisions of laws, regulations, contract and grant agreements, and other areas in accordance with *Government Auditing Standards*. The report also addressed compliance with applicable Health and Safety Codes for allocation of Transportation Funds for Clean

Air. As noted on page 9 of the Schedule of Audit Findings and Questioned Costs, there were no federal compliance findings or financial statement findings.

A member of the independent audit firm, Gilbert Associates, Inc. will be at the meeting to present audited reports to the Committee.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None. Funding for the Auditors' report is included in the FYE 2014 Budget.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Stephanie Osaze

Reviewed by: Jeff McKay

- Attachments: 1) Financial Statements with Independent Auditor's Report for the Year Ended June 30, 2014
- 2) OMB Circular A-133 and Transportation Fund for Clean Air Compliance Report for Year Ended June 30, 2014

**BAY AREA AIR QUALITY  
MANAGEMENT DISTRICT**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S  
REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2014**

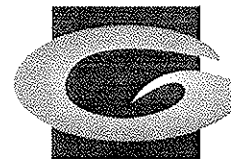
# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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# INDEPENDENT AUDITOR'S REPORT



Gilbert Associates, Inc.  
CPAs and Advisors

*Gilbert Associates*

**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, 2014, 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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

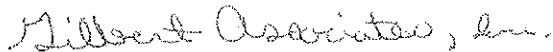
***Other Information***

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 17, 2014, 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.**  
Sacramento, California

**December 17, 2014**

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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This discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the accompanying basic financial statements.

### **A. Financial Highlights**

The District is undertaking a major relocation of its operations from 939 Ellis Street (Ellis building) to a shared facility with other government agencies located at 375 Beale Street in San Francisco. To finance ownership interest of its portion of the new facility, the District issued \$30,000,000 through a private placement of taxable Certificates of Participation with the Bay Area Headquarters Authority. The District agreed to contribute a minimum of \$8.5 million from the sale of its Ellis building towards the debt obligation of the new building.

On April 30, 2014, the District closed escrow of 939 Ellis Street Office Building and sold it for \$16.4 million. Currently, the District is leasing the Ellis building from the new owners until the construction of 375 Beale is complete; anticipated sometime in 2016.

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

The assets of the District exceeded its liabilities at the close of fiscal year 2013-14 by \$174,699,065 (net position). Of this amount, \$35,937,269 could be used to finance the District's daily operations without legal or legislative constraints (unrestricted assets); \$117,338,736 was restricted to specific uses (restricted assets); and \$21,423,060 was invested in capital assets. Net position increased by \$24,375,476 from fiscal year 2012-13 mainly resulting from proceeds from the sale of the Ellis building and an increase in program revenues.

The District's governmental funds reported a fund balance of \$192,340,943. The entire fund balance of the Special Revenue Fund in the amount of \$111,749,488 is reserved for air quality grants and projects. The entire Capital Projects Fund of \$29,703,923 represents the investment activities for the 2013 Certificate of Participation Notes. The \$50,887,532 General Fund balance consists of \$18,279,224 representing the assigned fund balance, \$16,878,892 unassigned, and the remaining balance of \$15,729,416 restricted, committed or nonspendable.



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

Table 1 presents the General Fund detail of fund balances as of June 30, 2014, and June 30, 2013.

**Table 1. General Fund Balances as of June 30, 2014 and 2013**

Category	General Fund June 30, 2014	General Fund June 30, 2013	Increase/ (Decrease)
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
Prepaid Expenses	\$ 640,168	\$ 580,217	\$ 59,951
<b>Restricted:</b>			
Air Quality Grants and Projects	2,766,603	3,020,616	(254,013)
Post-Employment Benefits	2,822,645	2,691,440	131,205
<b>Committed:</b>			
Self-Funded Worker's Compensation	1,000,000	1,344,113	(344,113)
375 Beale District Office	8,500,000		8,500,000
<b>Assigned:</b>			
Building and Facilities	6,668,200	5,478,276	1,189,924
PERS Funding	800,000	2,016,169	(1,216,169)
Post-Employment Benefits	1,000,000	2,688,226	(1,688,226)
Radio Replacement		100,808	(100,808)
Capital Equipment	4,228,000	1,639,573	2,588,427
Air Quality Grants and Projects	5,583,024	3,601,199	1,981,825
<b>Unassigned:</b>	16,878,892	5,059,722	11,819,170
<b>Total Fund Balance</b>	<b>\$ 50,887,532</b>	<b>\$ 28,220,359</b>	<b>\$ 22,667,173</b>

### 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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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### **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 held and all liabilities owed by the District on a full accrual basis. The difference between the assets held and the liabilities owed 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, 2014 is presented on page 14.

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 15.

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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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### **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 16.

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 Balance can be found on page 18.

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 17. 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 19.

#### **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 20 to 39.

#### **Required and Other Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning other post-employment benefit (OPEB) liabilities, general fund and special revenue fund budget comparison schedules, TFCA and Carl Moyer program expenditures, and the California Public Employees Retirement System (PERS) Schedule of Funding Progress on pages 40 to 43.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

### 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, 2014 compared to the fiscal year ended June 30, 2013.

**Table 2. Statement of Net Position as of June 30, 2014 and June 30, 2013**

	Governmental Activities <u>June 30, 2014</u>	Governmental Activities <u>June 30, 2013</u>	Increase/ (Decrease)
Current & Other Assets	\$ 223,695,392	\$ 177,187,601	\$ 46,507,791
Capital Assets	<u>21,423,060</u>	<u>22,668,986</u>	<u>(1,245,926)</u>
<b>Total Assets</b>	<b><u>245,118,452</u></b>	<b><u>199,856,587</u></b>	<b><u>45,261,865</u></b>
Current Liabilities	32,575,231	41,933,163	(9,357,932)
Noncurrent Liabilities	<u>37,844,156</u>	<u>7,599,835</u>	<u>30,244,321</u>
<b>Total Liabilities</b>	<b><u>70,419,387</u></b>	<b><u>49,532,998</u></b>	<b><u>20,886,389</u></b>
Net Position			
Invested in Capital Assets	21,423,060	22,668,986	(1,245,926)
Restricted	117,338,736	114,558,909	2,779,827
Unrestricted net position	<u>35,937,269</u>	<u>13,095,694</u>	<u>22,841,575</u>
<b>Total Net Position</b>	<b><u>\$ 174,699,065</u></b>	<b><u>\$ 150,323,589</u></b>	<b><u>\$ 24,375,476</u></b>

As noted earlier, total net position may serve over time as a useful indicator of the District's financial position. At June 30, 2014 the District's total assets exceeded its total liabilities by \$174,699,065, an increase of \$24,375,476 over the previous fiscal year. This increase is mainly due to an increase of \$45.3 million in total assets offset by an increase of \$20.9 million in total liabilities.

The increase of \$45.3 million in total assets is comprised of proceeds from the sale of the District's building and investments from the sale of Certificate of Participation Notes (COPs). This \$20.9 million increase in total liabilities is due to the \$30.0 million COPs debt issuance offset by a \$9.4 million reduction in unearned revenues (current liabilities) from the prior year now being recognized as revenue to cover California Goods Movement Program expenditures incurred in the current fiscal year.

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 may be used to meet the District's obligations in carrying out its day-to-day operations.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

### C. Government-Wide Financial Analysis, Continued

Table 3 below provides changes in net position for the fiscal year ending June 30, 2014 compared with the fiscal year ended June 30, 2013.

**Table 3. Statement of Activities for Fiscal Years 2013-14 and 2012-13**

	Governmental Activities FY 2013-14	Governmental Activities FY 2012-13	Dollar Increase/ (Decrease)	Percentage Increase/ (Decrease)
<b>Revenues:</b>				
TFCA/MSIF DMV Fees	\$ 36,345,524	\$ 35,315,938	\$ 1,029,586	3%
Carl Moyer	13,053,955	7,704,566	5,349,389	69%
California Goods Movement Revenue	16,062,216	27,793,503	(11,731,287)	-42%
Permit Fees	32,331,466	29,960,300	2,371,166	8%
State Subvention	1,721,405	1,712,022	9,383	1%
Federal Grants	9,589,875	6,388,240	3,201,635	50%
Penalties & Variance Fees	3,093,269	1,688,102	1,405,167	83%
Asbestos Fees	2,786,443	2,465,047	321,396	13%
Interest Revenue	324,504	262,802	61,702	23%
Other Revenues	651,641	560,265	91,376	16%
State Grants	988,667	674,480	314,187	47%
Special Environmental Projects	14,145	26,570	(12,425)	-47%
County Apportionments	23,049,894	23,733,376	(683,482)	-3%
<b>Total Revenues</b>	<b>140,013,004</b>	<b>138,285,211</b>	<b>1,727,793</b>	<b>1%</b>
<b>Expenses:</b>				
General Government	61,589,948	61,834,280	(244,332)	0%
TFCA/MSIF, CMP, & Other programs	49,793,757	39,293,807	10,499,950	27%
California Goods Movement Program	18,110,025	28,172,525	(10,062,500)	-36%
Debt Service	41,622	-	41,622	
<b>Total Expenses</b>	<b>129,535,352</b>	<b>129,300,612</b>	<b>234,740</b>	<b>0%</b>
<b>Change in Net Position before Extraordinary Item &amp; Special Item</b>	<b>10,477,652</b>	<b>8,984,599</b>	<b>1,493,053</b>	<b>17%</b>
<b>Special Item</b>				
Gain on sale of 939 Ellis Street Building	12,100,523	-	12,100,523	
<b>Extraordinary Item</b>				
Recovery of Lehman Brothers loss	1,797,301	643,536	1,153,765	179%
<b>Change in Net Position</b>	<b>24,375,476</b>	<b>9,628,135</b>	<b>14,747,341</b>	<b>153%</b>
<b>Net Position - beginning of year</b>	<b>150,323,589</b>	<b>140,695,454</b>	<b>9,628,135</b>	<b>7%</b>
<b>Net Position - end of year</b>	<b>\$ 174,699,065</b>	<b>\$ 150,323,589</b>	<b>\$ 24,375,476</b>	<b>16%</b>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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### 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 2013-2014. 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, 2014, the District's governmental funds reported a combined ending fund balance of \$174,699,065, an increase of \$24,375,476 in comparison to the prior year. The primary reasons for the increase are the building sale proceeds, investment recovery and increased operating surplus both in the General Fund and Special Revenues Fund in the current year.

- Overall governmental revenues are \$140,013,004; an increase of \$1,727,793 from the prior year resulting from increased revenues received in fees and grant programs.
- Overall governmental expenditures are \$129,535,352; a slight increase of \$234,740 over the prior year.

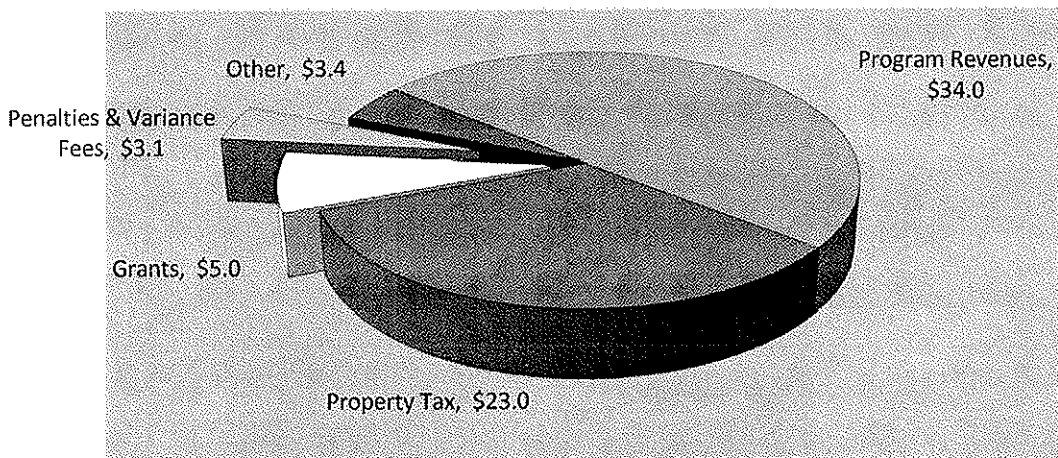
# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

### 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 2013-2014. The General Fund received total revenue of \$68,515,904 in fiscal year 2013-14, an increase of \$3,123,080 over fiscal year 2012-13. This increase is mainly comprised of increased revenues of \$3.8 million in permit, asbestos, penalties, and other related fees resulting in an average rate increase of approximately 6.4% over the prior year. This increase was offset by decreased revenue of \$683,482 in property tax whereby the District remitted a refund to the State of California for overpayment of Prop 1A funds. Program Revenues include: Permit, AB2588, Title V, and Asbestos fees. Program revenues are the largest General Fund revenue source in fiscal 2013-14 (\$34.0 million), followed by Property Tax (\$23.0 million), Grants (\$5.0 million), Penalties (\$3.1 million), and Other revenues (\$3.4 million).

**Figure 1. Fiscal Year 2013-2014 General Fund Revenues (Figures in Millions)**



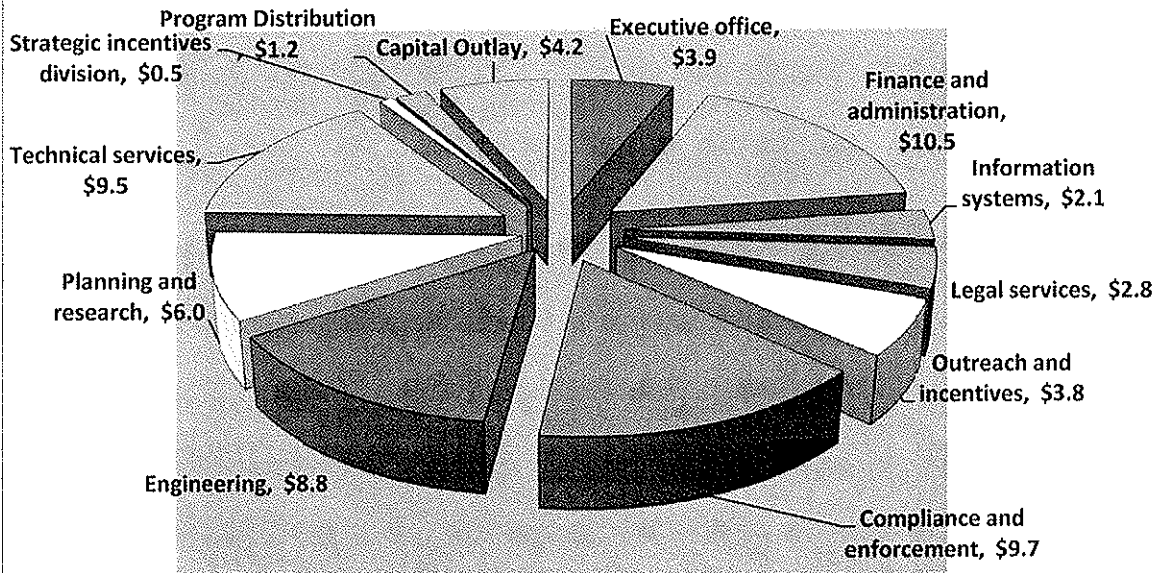
# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

### D. General Fund Financial Analysis, Continued

Figure 2 below provides a graph of General Fund operating expenditures (net of other financing uses) for fiscal year 2013-14. General Fund operating expenditures totaled \$62,953,755 which is an increase of \$343,711 over fiscal year 2012-13. This increase resulted from a combined increase of \$3.7 million in operating increases in the Executive Office, Finance & Administration, Legal Services, Outreach & Incentives, Technical Services, and Capital Outlay; offset by a \$3.4 million decrease in expenditure in Information Systems, Compliance & Enforcement, Strategic Incentives, Engineering, Planning & Research, and Program distributions for special environmental projects. General Fund expenditures represent the District's general government operating costs categorized into the following operating divisions: Compliance and Enforcement (\$9.7 million), Engineering (\$8.7 million), Finance & Administrative Services (\$10.5 million), Information Services (\$2.1 million), Technical Services (\$9.5 million), Executive (\$3.9 million), Planning (\$6.0 million), Outreach & Incentives (\$3.8 million), Strategic Incentives (\$0.5 million) and Legal Services (\$2.8 million). Program Distribution (\$1.2 million) is not an operating division, but rather a category capturing expenditure used for special projects. General Fund operating revenues exceeded operating expenditures by \$5,562,149 in fiscal year 2013-14.

**Figure 2. Fiscal Year 2013-14 General Fund Expenditures (Figures in Millions)**





# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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### **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 \$50.9 million. The assigned fund balance was \$18.3 million, committed \$9.5 million, restricted \$5.6 million, non-spendable \$0.6 million, and the remaining \$16.9 million is unassigned. The unassigned fund balance represents 26.9% of the total General Fund expenditures, while the total fund balance represents 80.8% of the total fund expenditures. The District has available funds for unanticipated emergencies.

The FY 2013-14 adopted budget as compared to the actual expenditures and revenues reflects a decrease in appropriations of \$0.5 million and an increase in revenues of \$5.2 million. The revenue increase was due to increased property tax receipts, certain fees, and grants. The changes to the budget were the result of Governing Board actions, and carryover of unspent funds from FY 2012-13.

### **E. Capital Assets**

Capital assets include land, buildings, laboratory equipment, air monitoring stations, computers, office furniture and District fleet vehicles. As of June 30, 2014 the District's investment in capital assets was \$21.4 million net of accumulated depreciation. This was a decrease of \$1.3 million from the prior year and resulted from the write off of assets related to the 939 Ellis building offset by increases in other construction in progress and other equipment.

### **F. Capital Projects Fund**

During the current fiscal year, a Capital Projects Fund was established to account for financial resources that are specifically related for the acquisition of District's new office space noted on page 3. At June 30, 2014, the Capital Projects Fund reported a balance of \$29,703,923 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 2016. 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 31-32 of the notes to the financial statements.

### **G. Economic Factors and Next Year's Budget**

The District receives approximately 34% of its General Fund revenue from property taxes levied in nine Bay Area counties and 50% 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 6.4% in FY 2014-15. The District will continue to focus on long term financial planning to ensure the vitality and effectiveness of its programs.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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### **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 939 Ellis Street, San Francisco, CA 94109.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2014

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 40,504,643
Restricted cash and cash equivalents	136,518,263
Restricted investments	29,663,843
Receivables	11,476,670
Due from other governments	4,770,185
Prepays, deposits, and other current assets	<u>761,788</u>
Capital assets:	
Non-depreciable	12,556,288
Depreciable, net	<u>8,866,772</u>
Total capital assets	<u>21,423,060</u>
 Total assets	 <u>245,118,452</u>
 <b>LIABILITIES</b>	
Accounts payable	2,700,121
Accrued payroll	1,615,790
Other current liabilities	290,285
Unearned revenue	24,769,035
Long-term liabilities:	
Due within one year	3,200,000
Due in more than one year	<u>37,844,156</u>
 Total liabilities	 <u>70,419,387</u>
 <b>NET POSITION</b>	
Net investment in capital assets	21,423,060
Restricted for air quality grants and projects	114,516,091
Restricted for post-employment benefits	2,822,645
Unrestricted net position	<u>35,937,269</u>
 Total net position	 <u>\$ 174,699,065</u>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Primary government	\$ 61,589,948	\$ 38,759,304	\$ 7,446,637	\$ (15,384,007)
California Goods Movement program	18,110,025		17,727,067	(382,958)
Interest	<u>41,622</u>			<u>(41,622)</u>
TFCA/MSIF, CMP, & other programs:				
TFCA/MSIF & other program distribution	36,739,802		39,533,983	2,794,181
Carl Moyer Program	<u>13,053,955</u>		<u>13,053,955</u>	
Total TFCA/MSIF, CMP, & other programs	<u>49,793,757</u>		<u>52,587,938</u>	<u>2,794,181</u>
Total governmental activities	<u>\$ 129,535,352</u>	<u>\$ 38,759,304</u>	<u>\$ 77,761,642</u>	<u>(13,014,406)</u>
General revenues:				
County apportionment				23,049,894
Investment income not restricted for a specific program				324,504
Other				<u>117,660</u>
Total general revenues				<u>23,492,058</u>
Change in net position before extraordinary item and special item				10,477,652
Special item:				
Gain on sale of 939 Ellis Street building				12,100,523
Extraordinary item:				
Recovery of Lehman Brothers loss				<u>1,797,301</u>
Change in net position				24,375,476
Net position-beginning of year				<u>150,323,589</u>
Net position-end of year				<u>\$ 174,699,065</u>

See accompanying notes to financial statements.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2014

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 40,504,643			\$ 40,504,643
Restricted cash and cash equivalents	2,822,645	\$ 133,655,538	\$ 40,080	136,518,263
Restricted investments			29,663,843	29,663,843
Receivables	4,958,004	6,518,666		11,476,670
Due from other governments	3,576,203	1,193,982		4,770,185
Due from other funds	4,925,926			4,925,926
Prepays, deposits, and other assets	761,788			761,788
Total assets	<u>\$ 57,549,209</u>	<u>\$ 141,368,186</u>	<u>\$ 29,703,923</u>	<u>\$ 228,621,318</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 2,166,598	\$ 533,523		\$ 2,700,121
Accrued payroll	1,615,790			1,615,790
Due to other funds		4,925,926		4,925,926
Other liabilities	290,285			290,285
Unearned revenue	609,786	24,159,249		24,769,035
Total liabilities	<u>4,682,459</u>	<u>29,618,698</u>		<u>34,301,157</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	1,979,218			1,979,218
<b>FUND BALANCES</b>				
Nonspendable:				
Prepaid items	640,168			640,168
Restricted:				
Air quality grants and projects	2,766,603	111,749,488		114,516,091
Postemployment benefits	2,822,645			2,822,645
Capital projects			\$ 29,703,923	29,703,923
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	800,000			800,000
Postemployment benefits	1,000,000			1,000,000
Building and facilities	6,668,200			6,668,200
Capital equipment	4,228,000			4,228,000
Air quality grants and projects	5,583,024			5,583,024
Unassigned	16,878,892			16,878,892
Total fund balances	<u>50,887,532</u>	<u>111,749,488</u>	<u>29,703,923</u>	<u>192,340,943</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 57,549,209</u>	<u>\$ 141,368,186</u>	<u>\$ 29,703,923</u>	<u>\$ 228,621,318</u>

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, 2014

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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	\$ 192,340,943
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	21,423,060
Other long-term assets (receivables) are not available to pay for current-period expenditures and therefore, are reported as unavailable revenue in the funds.	1,979,218
The liabilities below are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(4,558,006)
OPEB obligation	(6,486,150)
Certificates of participation	<u>(30,000,000)</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 174,699,065</u></b>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
<b>REVENUES</b>				
TFCA / MSIF DMV fees		\$ 36,345,524		\$ 36,345,524
Permit fees	\$ 31,190,416			31,190,416
County apportionment	23,049,894			23,049,894
California Goods Movement revenue		16,062,216		16,062,216
Carl Moyer Program		13,053,955		13,053,955
Federal grants	5,031,562	4,558,313		9,589,875
Penalties and variance fees	3,093,269			3,093,269
Asbestos fees	2,786,443			2,786,443
State subvention	1,721,405			1,721,405
State grants	693,670	294,997		988,667
Other revenues	651,641			651,641
Interest	283,459		\$ 41,045	324,504
Special environmental projects	14,145			14,145
Total revenues	68,515,904	70,315,005	41,045	138,871,954
<b>EXPENDITURES</b>				
General government:				
Program distribution	1,245,307			1,245,307
Executive office	3,891,221			3,891,221
Finance and administration	10,513,150			10,513,150
Information systems	2,055,444			2,055,444
Legal services	2,773,477			2,773,477
Outreach and incentives	3,834,645			3,834,645
Compliance and enforcement	9,720,345			9,720,345
Engineering	8,755,259			8,755,259
Planning and research	5,971,768			5,971,768
Technical services	9,520,445			9,520,445
Strategic incentives division	500,653			500,653
TFCA/MSIF, Carl Moyer, & other programs:				
Program distribution		39,209,954		39,209,954
Intermittent control		1,142,709		1,142,709
TFCA administration		1,038,449		1,038,449
Vehicle buy-back		2,275,826		2,275,826
Mobile source incentive		513,350		513,350
Regional bikeshare		3,225,150		3,225,150
CarSharing incentive		297,360		297,360
Regional electric vehicle deployment		621,757		621,757
Enhanced mobile source inspection		1,421,360		1,421,360
Commute assistance		23,851		23,851
California Goods Movement Program & other programs:				
Grant administration		730,609		730,609
Truck Program/LESBP		17,375,575		17,375,575
Debt Service:				
Interest			41,622	41,622
Debt issuance costs			295,500	295,500
Capital outlay	4,172,041			4,172,041
Total expenditures	62,953,755	67,875,950	337,122	131,166,827
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>5,562,149</b>	<b>2,439,055</b>	<b>(296,077)</b>	<b>7,705,127</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	845,190			845,190
Transfers (out)		(845,190)		(845,190)
Proceeds from certificates of participation issued			30,000,000	30,000,000
Total other financing source (uses)	845,190	(845,190)	30,000,000	30,000,000
<b>SPECIAL ITEM</b>				
Sale of 939 Ellis Street building	15,771,303			15,771,303
<b>EXTRAORDINARY ITEM</b>				
Recovery of Lehman Brothers loss	488,531	1,308,770		1,797,301
<b>NET CHANGE IN FUND BALANCES</b>	<b>22,667,173</b>	<b>2,902,635</b>	<b>29,703,923</b>	<b>55,273,731</b>
<b>BEGINNING FUND BALANCES</b>	<b>28,220,359</b>	<b>108,846,853</b>		<b>137,067,212</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 50,887,532</b>	<b>\$ 111,749,488</b>	<b>\$ 29,703,923</b>	<b>\$ 192,340,943</b>

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, 2014

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**      \$ 55,273,731

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	4,172,041
Depreciation expense is deducted from fund balance	(1,718,361)
Net book value of capital asset disposals is deducted from fund balance	(3,699,606)

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	(49,058)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

	1,141,050
--	-----------

The issuance of long-term debt provides current financial resources to governmental funds, but does not have an effect on net position. Current year proceeds from the issuance of certificates of participation were:

	(30,000,000)
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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):

Compensated absences	(218,811)
OPEB obligation	<u>(525,510)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES**      \$ 24,375,476



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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### 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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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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. Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures equal to 10% (ten percent) of the total. 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

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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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. 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.

### **G. 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, 2014, management deemed \$49,058 of outstanding receivables to be uncollectible.

### **H. 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

### **I. Deferred Outflows/Deferred Inflows**

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section called *deferred outflows of resources*. A deferred outflow of resources represents a consumption of net position or fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The District has no deferred outflows of resources.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section called *deferred inflows of resources*. A deferred inflow of resources represents an acquisition of net position or fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District reports unavailable revenue as a deferred inflow of resources in the fund financial statements.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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### J. 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.

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

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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### K. Future GASB Statement Implementation

In June of 2012, the GASB issued GASB Statement 68 (GASB 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with required implementation for the District during the year ended June 30, 2015, and in November of 2013, issued GASB Statement 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which simply amended portions of GASB 68. GASB 68 is an amendment of GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*. The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions 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 pension 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 68 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, 2014, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 40,504,643
Restricted cash and cash equivalents	136,518,263
Restricted investments	<u>29,663,843</u>
Total cash, cash equivalents, and investments	<u>\$ 206,686,749</u>

Cash, cash equivalents, and investments as of June 30, 2014, consist of the following:

Cash and investments in San Mateo	
Pooled Fund Investment Program	\$ 174,160,181
Cash, cash equivalents, and investments with fiscal agent	<u>32,526,568</u>
Total cash and cash equivalents	<u>\$ 206,686,749</u>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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%	100%
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

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 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 \$29,703,923 represent unspent proceeds of the 2013 Certificates of Participation at June 30, 2014, 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, 2014.

### 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 values to changes in market interest rates.

The District's cash, cash equivalents, and investments were categorized as follows at June 30, 2014:

	<u>Ratings</u>		<u>Maturities</u>	<u>Fair Value</u>
	<u>Moody's</u>	<u>S&amp;P</u>		
Money market	Not Rated	Not Rated	Current	\$ 40,080
AIG fixed annuity	Not Rated	Not Rated	Current	2,822,645
U.S. Treasury Notes	Aaa	Not Rated	0.92 years	29,663,843
Investments in San Mateo				
Pooled Fund Investment Program	Aa1/P-1	AA/A-1	1.71 years	<u>174,160,181</u>
Total cash, cash equivalents, and investments				<u>\$ 206,686,749</u>



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### Restricted Cash, Cash Equivalents, and Investments

The District's restricted cash, cash equivalents, and investments are \$166,182,106 at June 30, 2014. Included in this restricted balance is \$29,703,923 for the 2013 Certificates of Participation unspent proceeds, \$133,655,538 restricted for air quality grants and projects, and \$2,822,645 restricted for postemployment benefits.

### 3. RECEIVABLES

At June 30, 2014, the District had the following accounts receivable:

<b>General Fund:</b>		
Permit and other fees	\$ 4,133,850	
County apportionments	662,716	
Interest	56,357	
Other	105,081	
Total General Fund		\$ 4,958,004
 <b>Special Revenue Fund:</b>		
TFCA DMV fees	4,174,069	
MSIF DMV fees	2,082,268	
Interest	214,620	
Other	47,709	
Total Special Revenue Fund		6,518,666
<b>Total Accounts Receivable</b>		<b>\$ 11,476,670</b>

### 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, 2014, the General Fund was owed \$4,925,926 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, 2014 were as follows:

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount Transferred</u>
General Fund	Special Revenue Fund	\$ 845,190

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 5. CAPITAL ASSETS

The District's capital assets were comprised of the following at June 30, 2014:

	<b>Balance at 7/1/2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Balance at 6/30/2014</b>
Non-depreciable assets:					
Land	\$ 214,608		\$ (214,608)		
Construction in progress	11,442,137	\$ 2,516,850		\$ (1,402,699)	\$ 12,556,288
Total non-depreciable assets	11,656,745	2,516,850	(214,608)	(1,402,699)	12,556,288
Depreciable assets:					
Building and grounds	9,679,502	102,561	(10,769,506)	1,195,311	207,868
Leasehold improvements	2,847,646				2,847,646
Computers and network equipment	8,514,358			207,388	8,721,746
Motorized equipment	1,045,738		(119,526)		926,212
Lab and monitoring equipment	7,602,734	816,630	(456,940)		7,962,424
Furniture and other equipment	2,578,561	736,000			3,314,561
Total depreciable assets	32,268,539	1,655,191	(11,345,972)	1,402,699	23,980,457
Accumulated depreciation:					
Building and grounds	7,172,613	249,445	(7,313,334)		108,724
Leasehold improvements	2,687,735	2,391			2,690,126
Computers and network equipment	2,856,371	584,361			3,440,732
Motorized equipment	967,884	10,165	(113,550)		864,499
Lab and monitoring equipment	6,059,660	565,610	(434,090)		6,191,180
Furniture and other equipment	1,512,035	306,389			1,818,424
Total accumulated depreciation	21,256,298	1,718,361	(7,860,974)		15,113,685
Total depreciable assets, net	11,012,241	(63,170)	(3,484,998)	1,402,699	8,866,772
Total capital assets, net	\$ 22,668,986	\$ 2,453,680	\$ (3,699,606)	\$	\$ 21,423,060

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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Depreciation expense by function for capital assets for the year ended June 30, 2014, is as follows:

Primary Government:	
Executive office	\$ 47,108
Administrative services	217,399
Legal services	38,103
Public information and outreach	21,476
Compliance enforcement	162,622
Engineering	132,460
Planning	110,900
Technical services	671,911
Information services	207,437
Strategic Incentives Division	<u>108,945</u>
Total depreciation expense	<u>\$ 1,718,361</u>

On April 30, 2014, the District sold its land and building located at 939 Ellis Street in San Francisco, California. The proceeds from the sale, less taxes and legal fees related to the sale, of \$15,771,303 are presented as a special item in the General Fund's Statement of Revenues, Expenditures, and Changes in Fund Balances. This amount is further reduced by the net book value of the land and building of \$3,670,780, for a total special item of \$12,100,523 in the Government-wide Statement of Activities. The sale of the land and building are considered a special item because such a transaction is infrequent in nature but within the control of the District. Subsequent to the sale, the District began leasing the building from the new owners. See further disclosure in Note 8.

### 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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

At June 30, 2014, components of unearned and unavailable revenues reported were as follows:

	<u>Unearned Revenue</u>	<u>Unavailable Revenue</u>	<u>Total</u>
<b>General Fund:</b>			
Permits and licenses		\$ 1,979,218	\$ 1,979,218
Carl Moyer Program Administration	\$ 600,536		600,536
Air Quality Improvement Program	9,250		9,250
Subtotal General Fund	<u>609,786</u>	<u>1,979,218</u>	<u>2,589,004</u>
<b>Special Revenue Fund:</b>			
GMB – Administration	711,986		711,986
GMB – On-Road Projects	12,515,236		12,515,236
Shore Power Projects	3,950,994		3,950,994
Carl Moyer Program	6,981,033		6,981,033
Subtotal Special Revenue Fund	<u>24,159,249</u>		<u>24,159,249</u>
Total unearned and unavailable revenue	<u>\$ 24,769,035</u>	<u>\$ 1,979,218</u>	<u>\$ 26,748,253</u>

### 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 2016. 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.

## BAY AREA AIR QUALITY MANAGEMENT DISTRICT

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The District and BAHA has 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:

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

Upon payment of all rental payments under the term of the sublease agreement, the title of the office space will transfer to the District.

A schedule of changes in general long-term debt for the year ended June 30, 2014, is shown below:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Certificates of Participation		\$ 30,000,000		\$ 30,000,000	
Compensated Absences	\$ 4,339,195	3,371,672	\$ (3,152,861)	4,558,006	\$ 3,200,000
OPEB	<u>5,960,640</u>	<u>5,283,000</u>	<u>(4,757,490)</u>	<u>6,486,150</u>	
Total	<u>\$ 10,299,835</u>	<u>\$ 38,654,672</u>	<u>\$ (7,910,351)</u>	<u>\$ 41,044,156</u>	<u>\$ 3,200,000</u>

The long-term portion of compensated absences is liquidated by the General Fund and the long-term portion of OPEB is 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, as discussed in Note 5, and otherwise liquidated by the Capital Projects Fund.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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### 8. LEASES

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

<u>Year ended June 30,</u>	
2015	\$ 844,126
2016	624,050
2017	492,534
2018	299,636
2019	77,794
2020-2024	<u>20,578</u>
	<u>\$ 2,358,718</u>

Air-monitoring station leases are renewable with minor escalations.

Rental expense for lease agreements during the year ended June 30, 2014, was \$1,174,400.

Additionally, as described in Note 5, 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, with options for additional extensions. The District intends to participate in this lease agreement until moving to the new premises on the acquisition date under the sublease with BAHA discussed in Note 7. Rental expense for the building for the year ended June 30, 2014, was \$183,851.

### 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 to 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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

County apportionment revenue recognized as of June 30, 2014, is as follows:

Alameda	\$	4,236,079
Contra Costa		2,514,385
Marin		1,172,574
Napa		817,395
Santa Clara		5,993,224
San Francisco		3,378,130
San Mateo		3,325,528
Solano		547,539
Sonoma		<u>1,065,040</u>
Total county apportionment revenue	\$	<u>23,049,894</u>

### 10. PENSION PLAN

All District employees are eligible to participate in a pension plan offered by the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined-benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CalPERS provides retirement and disability retirement benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the CalPERS Miscellaneous Employee "2% at 55" Plan (Plan). Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full-time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS, and the District must contribute the amounts specified by CalPERS. The Plan's provisions and benefits in effect at June 30, 2014, are summarized as follows:

	<u>Classic Members</u>	<u>New Members under PEPPRA</u>
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits, as % of annual salary	1.426% - 2.418%	1.000% - 2.500%
Required employee contribution rates	7.0%	6.25%
Required employer contribution rates	11.982%	11.982%

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

CalPERS determines contribution requirements using a modification of the Entry Age Normal Cost Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The District uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions. The required contributions and related rates for the past three years ended June 30 were as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2012	\$ 5,038,023	100%	\$ 0
6/30/2013	\$ 4,463,725	100%	\$ 0
6/30/2014	\$ 3,896,074	100%	\$ 0

Funded Status and Funding Progress – The funded status of the plan as of the most recent valuation date of June 30, 2013, was as follows:

Actuarial accrued liability (AAL)	\$ 232,911,511
Actuarial value of plan assets	<u>180,235,962</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 52,675,549</u>
Funded ratio (actuarial value of plan assets/AAL)	77.4%
Covered payroll (active plan members)	\$ 31,540,591
UAAL as a percentage of payroll	167.0%

CalPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.5% is assumed, including inflation at 2.75% and an annual production growth of 0.25%. Annual salary increases are assumed to vary by duration of service and range from 3.30% to 14.20%. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over 20 (twenty) years. Investment gains and losses are accumulated as they are realized and amortized over a rolling 30 (thirty) year period. The schedule of funding progress included in the required supplemental information presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Audited annual financial statements and ten year trend information are available from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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### 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 \$1,757,490 for the year ended June 30, 2014. The additional discretionary funding payment approved by the Board for the year ended June 30, 2014, was \$3,000,000. During the year ended June 30, 2014, one hundred seventy-six (176) retirees participated in the health insurance plan, one hundred fifty (150) retirees participated in the dental plan, one hundred thirty-two (132) retirees participated in the vision plan, and one hundred fifty-five (155) 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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Annual OPEB Cost and Net OPEB Obligation – The ARC was determined as part of the June 30, 2011, actuarial valuation. The ARC rate was 16.6% of annual covered payroll. For the year ended June 30, 2014, the District’s annual other postemployment benefit cost (expense) is \$5,283,000. 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	\$ 5,454,000
Interest on net OPEB obligation	271,000
Amortization of net OPEB obligation	<u>(442,000)</u>
Annual OPEB cost (expense)	5,283,000
Contributions made	<u>(4,757,490)</u>
Increase in net OPEB obligation	525,510
Net OPEB obligation-beginning of year	<u>5,960,640</u>
 Net OPEB obligation-end of year	 <u>\$ 6,486,150</u>

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, 2014, and the two preceding years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/12	\$ 4,982,000	52.3%	\$ 6,074,269
6/30/13	\$ 5,080,000	102.2%	\$ 5,960,640
6/30/14	\$ 5,283,000	90.1%	\$ 6,486,150

Funded Status and Funding Progress – The funded status of the plan as of the most recent actuary valuation date, June 30, 2013, was as follows:

Actuarial accrued liability (AAL)	\$ 49,660,000
Actuarial value of plan assets	<u>19,636,000</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 30,024,000</u>
Funded ratio (actuarial value of plan assets/AAL)	39.5%
Covered payroll (active plan members)	\$ 32,085,000
UAAL as a percentage of payroll	93.6%

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. The schedule of funding progress included in the required supplemental information presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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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.

In the June 30, 2013, 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% - 8.3%, 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 \$19,636,000. The plan's unfunded actuarial accrued liability is being amortized using the level percentage of pay method over 20 (twenty) years with 14 (fourteen) years remaining as of June 30, 2014.

### 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, 2014, 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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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### 14. EXTRAORDINARY ITEM

On September 15, 2008, Lehman Brothers Holdings Inc. (Lehman Brothers) declared bankruptcy. This bankruptcy had a direct, negative impact on the County Pool's investments in an amount of approximately \$155 million as of September 30, 2008. After extensive consultation with the County's financial advisors and legal counsel, the County Treasurer decided to retain the Lehman securities, but mark their value down to zero and carry the securities as nonperforming assets. For the quarter ended September 30, 2008, the County charged all pool participants' accounts a one-time expense based on their average daily cash balances to reflect the reduction in value. The District's portion of this charge resulted in a loss on investments of \$1,720,955 in the fiscal year ending June 30, 2009.

In March of 2012, Lehman Brothers exited bankruptcy and made an initial payment to creditors on April 17, 2012. The County Pool received \$9,332,132 in this initial distribution, and the District's share of this recovery was \$439,158, included in revenue in the fiscal year ending June 30, 2012.

The County Pool received \$5,935,930 in the second distribution from the Lehman Brothers settlement, on October 2, 2012, and \$7,739,246 on April 4, 2013. The District's share of these two recovery amounts was \$279,337 and \$364,199, respectively, and these amounts were included in revenue for the fiscal year ending June 30, 2013.

The County Pool received \$38,595,000 in the last distribution from the Lehman Brothers settlement on August 9, 2013, of which the District received \$1,583,622. An additional settlement against the Lehman Brothers Officers and Directors was reached in 2013. As a result, the County Pool received distributions of \$4,052,505 and \$1,155,121 in January and February of 2014, respectively. The District's share of these two recovery amounts was \$166,282 and \$47,397, respectively, and these amounts were included in revenue for the fiscal year ending June 30, 2014.

**REQUIRED SUPPLEMENTARY INFORMATION**

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## SCHEDULES OF FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2014

### PENSION PLAN

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	\$184,503,500	\$208,697,558	\$24,194,058	88.4%	\$31,492,142	76.8%
6/30/2012	193,484,731	220,115,239	26,630,508	87.9%	31,579,609	84.3%
6/30/2013	180,235,962	232,911,511	52,675,549	77.4%	31,540,591	167.0%

### 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)
1/1/2010	\$ 7,354,000	\$ 46,760,000	\$39,406,000	15.7%	\$31,826,000	123.8%
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%

# 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, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Permit fees	\$ 26,997,000	\$ 26,997,000	\$ 26,923,943	\$ (73,057)
Title V permit fees	3,690,000	3,690,000	3,712,520	22,520
AB 2588 income	600,000	600,000	554,553	(45,447)
County apportionment	21,780,888	21,780,888	23,049,894	1,269,006
Federal grant - EPA	1,838,744	3,135,731	3,153,149	17,418
Federal grant - DHS	1,352,992	1,352,992	1,227,035	(125,957)
CMAQ Spare the Air	700,000	700,000	651,378	(48,622)
Penalties and variance fees	1,700,000	1,700,000	3,079,144	1,379,144
Hearing board fees	20,000	20,000	14,125	(5,875)
Asbestos fees	1,900,000	1,900,000	2,786,443	886,443
State subvention	1,713,406	1,713,406	1,721,405	7,999
State grants	509,346	1,045,926	723,670	(322,256)
Portable equipment registration program (PERP)	380,000	380,000	533,981	153,981
Special environmental projects	37,962	998,898	238,159	(760,739)
Interest	277,695	277,695	283,459	5,764
Miscellaneous	100,000	100,000	117,660	17,660
Total revenues	63,598,033	66,392,536	68,770,518	2,377,982
<b>EXPENDITURES</b>				
Executive office	3,304,157	3,744,364	3,891,221	(146,857)
Finance and administration	11,013,794	11,147,783	10,513,150	634,633
Information systems	2,010,360	2,071,952	2,055,444	16,508
Legal services	2,628,499	2,658,287	2,773,477	(115,190)
Outreach and incentives	3,873,805	4,950,058	3,834,645	1,115,413
Compliance and enforcement	10,414,417	10,459,100	9,720,345	738,755
Engineering	8,556,529	8,791,422	8,755,259	36,163
Planning and research	6,253,115	7,103,735	5,971,768	1,131,967
Technical services	9,754,325	10,763,176	9,520,445	1,242,731
Strategic incentives division	771,778	771,778	500,653	271,125
Program distribution		1,497,516	1,245,307	252,209
Total current expenditures	58,580,779	63,959,171	58,781,714	5,177,457
Capital outlay	4,894,948	5,787,991	4,172,041	1,615,950
Total expenditures	63,475,727	69,747,162	62,953,755	6,793,407
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	122,306	(3,354,626)	5,816,763	9,171,389
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in			845,190	845,190
Transfers out	(122,306)	(122,301)		122,301
Total other financing sources	(122,306)	(122,301)	845,190	967,491
<b>SPECIAL ITEM</b>				
Sale of 939 Ellis Street building			15,771,303	15,771,303
<b>EXTRAORDINARY ITEM</b>				
Recovery on Lehman Brothers Loss			488,531	488,531
<b>NET CHANGE IN FUND BALANCE</b>				
	\$	\$ (3,476,927)	22,921,787	\$ 26,398,714
<b>BEGINNING BUDGETARY FUND BALANCE</b>				
			25,199,142	
<b>ENDING BUDGETARY FUND BALANCE</b>				
			\$ 48,120,929	

# 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, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
TFCA/MSIF DMV fee	\$ 33,642,618	\$ 68,383,517	\$ 32,229,327	\$(36,154,190)
CA Goods Movement revenue & other programs	26,615,862	21,591,704	20,915,526	(676,178)
Carl Moyer Program	10,205,990	13,434,112	13,053,955	(380,157)
AB 434/923 others	<u>246,066</u>	<u>246,066</u>	<u>1,213,562</u>	<u>967,496</u>
Total revenues	<u>70,710,536</u>	<u>103,655,399</u>	<u>67,412,370</u>	<u>(36,243,029)</u>
<b>EXPENDITURES</b>				
TFCA/MSIF, Carl Moyer, & other programs:				
Program distribution	28,704,695	54,647,705	39,209,954	15,437,751
Intermittent control	1,197,601	1,323,677	1,142,709	180,968
TFCA administration	1,187,251	1,267,969	1,038,449	229,520
Vehicle buy-back	5,032,450	2,076,332	2,275,826	(199,494)
Mobile source incentive	539,149	540,149	513,350	26,799
Regional BikeShare	5,159,068	7,731,913	3,225,150	4,506,763
CarSharing incentive program	3,382,184	3,382,184	297,360	3,084,824
Regional electric vehicle deployment	6,241,549	8,889,307	621,757	8,267,550
Enhanced mobile source inspection	1,679,802	1,679,802	1,421,360	258,442
Commute assistance	348,592	278,592	23,851	254,741
California Goods Movement Program & other programs:				
Grant administration	1,190,501	1,190,501	730,609	459,892
Truck Program/LESBP	<u>16,170,000</u>	<u>20,769,574</u>	<u>17,375,575</u>	<u>3,393,999</u>
Total expenditures	<u>70,832,842</u>	<u>103,777,705</u>	<u>67,875,950</u>	<u>35,901,755</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(122,306)</u>	<u>(122,306)</u>	<u>(463,580)</u>	<u>(341,274)</u>
<b>OTHER FINANCING USES</b>				
Transfers in	122,306	122,306		(122,306)
Transfers out			<u>(845,190)</u>	<u>(845,190)</u>
Total other financing uses	<u>122,306</u>	<u>122,306</u>	<u>(845,190)</u>	<u>(967,496)</u>
<b>EXTRAORDINARY ITEM</b>				
Recovery on Lehman Brothers Loss			<u>1,308,770</u>	<u>1,308,770</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$</u>	<u>\$</u>		<u>\$</u>
<b>BEGINNING BUDGETARY FUND BALANCE</b>				
<b>ENDING BUDGETARY FUND BALANCE</b>			<u>\$</u>	



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2014

### 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.

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Revenues – Budgetary Basis	\$ 68,770,518	\$ 67,412,370
Revenue recognition adjustments	<u>(254,614)</u>	<u>2,902,635</u>
Revenues – GAAP Basis	<u>\$ 68,515,904</u>	<u>\$ 70,315,005</u>

**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, 2014**

<u>Programs</u>	<u>Salaries and Benefits</u>	<u>Services and Supplies</u>	<u>Program Distribution</u>	<u>Total</u>
Program distribution			\$ 39,209,954	\$ 39,209,954
Intermittent control	\$ 433,786	\$ 708,923		1,142,709
TFCA administration	753,827	284,622		1,038,449
Vehicle Buy-Back	42,002	2,233,824		2,275,826
Mobile source incentive	488,142	25,208		513,350
Regional BikeShare	143,781	3,081,369		3,225,150
CarSharing Incentive Program	37,266	260,094		297,360
Regional Electric Vehicle Deployment	127,849	493,908		621,757
Enhanced Inspection Program	1,392,005	29,355		1,421,360
Commute Assistance	23,851			23,851
 Total expenditures	<u>\$ 3,442,509</u>	<u>\$ 7,117,303</u>	<u>\$ 39,209,954</u>	<u>\$ 49,769,766</u>

**BAY AREA AIR QUALITY  
MANAGEMENT DISTRICT**

**OMB CIRCULAR A-133 AND  
TRANSPORTATION FUND FOR CLEAN AIR  
COMPLIANCE REPORTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

FOR THE YEAR ENDED JUNE 30, 2014

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# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Pass-Through / Grant Identifying Number	Federal CFDA Number	Federal Expenditures
<b>U.S. Environmental Protection Agency:</b>			
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	PM98977301-A	66.034	\$ 152,225
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	PM99T08001	66.034	49,416
National Air Toxics Trend Study	XA00T63001-0	66.034	101,637
Lead NAAQS Airport Study	XA00T76401	66.034	65,982
NO2 Near Roadway	XA00T83001	66.034	<u>503,763</u>
Subtotal CFDA 66.034			<u>873,023</u>
National Clean Diesel Program-Truck Replacement	DE00T77901	66.039	916,715
National Clean Diesel Program-Truck Replacement	DE00T96101	66.039	<u>748,136</u>
Subtotal CFDA 66.039			<u>1,664,851</u>
Air Pollution Control Program Support	A00905613	66.001	62,510
Air Pollution Control Program Support	A00905614	66.001	<u>2,166,975</u>
Subtotal CFDA 66.001			<u>2,229,485</u>
Exchange Network EPA	OS-83466001-0	66.608	<u>50,101</u>
Total U.S. Environmental Protection Agency			<u>4,817,460</u>
<b>U.S. Department of Homeland Security:</b>			
Homeland Security Biowatch Program	2006-ST-91-2	97.091	<u>1,227,035</u>
<b>U.S. Department of Energy:</b>			
Conservation Research and Development	DE-EE0006007	81.086	<u>260,094</u>
<b>U.S. Department of Transportation:</b>			
Passed through California Department of Transportation:			
Highway Planning and Construction	CML-6297(003)	20.205	651,377
Highway Planning and Construction	CML-6297(006)	20.205	<u>2,633,368</u>
Highway Planning and Construction/Total U.S. Department of Transportation			<u>3,284,745</u>
Total Expenditures of Federal Awards			<u>\$ 9,589,334</u>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

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### 1. REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the Bay Area Air Quality Management District (the District). The District's reporting entity is defined in Note 1 of the District's basic financial statements. Expenditures of federal awards received directly from federal agencies, as well as expenditures of federal awards passed through other governmental agencies, are included in the SEFA.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** – Funds received under the various grant programs have been recorded within the general fund and the special revenue fund of the District. The accompanying SEFA is presented using the modified accrual basis of accounting for expenditures that are accounted for in the general fund and the special revenue fund, which are both governmental funds, as described in Note 1 of the District's basic financial statements.

**Relationship to Financial Statements** – Federal award expenditures reported in the accompanying SEFA agree, or can be reconciled, in all material respects, to amounts reported in the District's basic financial statements.

**Catalog of Federal Domestic Assistance (CFDA)** – The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant or contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

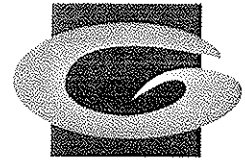
### 3. PASS-THROUGH ENTITIES' IDENTIFYING NUMBERS

When federal awards are received from a pass-through entity, the SEFA indicates, if assigned, the identifying grant or contract number that has been assigned by the pass-through entity.

### 4. PASS-THROUGH AWARDS

Federal assistance provided to subrecipients is treated as expenditures when it is paid to the subrecipient and is summarized as follows:

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Air Pollution Control Program Support	66.001	\$ 670,473
National Clean Diesel Program-Truck Replacement	66.039	916,715



Gilbert Associates, Inc.  
CPAs and Advisors

*With Integrity*

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS* AND THE  
TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM**

**Independent Auditor's Report**

**To the Board of Directors  
Bay Area Air Quality Management District  
San Francisco, California**

We have audited, in accordance with the 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, the 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit was further made to determine that Transportation Fund for Clean Air (TFCA) funds allocated to and received by the District were expended in conformance with applicable statutes, rules, and regulations of the Health and Safety Code Sections 44220 through 44225 and 44229 through 44242. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

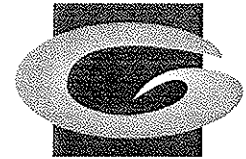
**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**GILBERT ASSOCIATES, INC.  
Sacramento, California**

**December 17, 2014**



Gilbert Associates, Inc.  
CPAs and Advisors

*Robert W. Gilbert, III*

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND  
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133**

**Independent Auditor's Report**

**To the Board of Directors  
Bay Area Air Quality Management District  
San Francisco, California**

**Report on Compliance for Each Major Federal Program**

We have audited the Bay Area Air Quality Management District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities and each major fund of the District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 17, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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

**To the Board of Directors  
Bay Area Air Quality Management District  
Page 2**

statements. The information has been subjected to the auditing procedures applied in the audit of the 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 of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.  
Sacramento, California**

**December 17, 2014**

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

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### SECTION I - SUMMARY OF AUDITOR'S RESULTS

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes     No

Significant deficiencies identified? \_\_\_\_\_ Yes     None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes     No

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes     No

Significant deficiencies identified? \_\_\_\_\_ Yes     None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? \_\_\_\_\_ Yes     No

#### Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.001	Air Pollution Control Program Support
97.091	Homeland Security Biowatch Program

Dollar threshold used to distinguish between Type A and Type B programs    \$ 300,000

Auditee qualified as low-risk auditee?     Yes    \_\_\_\_\_ No

# **BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

## **SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014**

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### **SECTION II - FINANCIAL STATEMENT FINDINGS**

There were no financial statement findings reported.

### **SECTION III - FEDERAL COMPLIANCE**

There were no federal compliance findings reported.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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There were no findings in the prior year.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

Memorandum

To: Chairperson Carole Groom and Members  
of the Budget and Finance Committee

From: Jack P. Broadbent  
Executive Officer/APCO

Date: January 12, 2015

Re: Second Quarter Financial Report – Fiscal Year Ending 2015

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Finance staff will present an update on the Air District’s financial results for the second quarter of the 2014-15 fiscal year. The following information summarizes those results.

GENERAL FUND BUDGET: STATEMENT OF REVENUES

Comparison of Budget to Actual Revenues

County receipts	\$ 10,848,105	(48%) of budgeted revenue.
Permit Fee receipts	\$ 22,513,786	(82%) of budgeted revenue.
Title V Permit Fees	\$ 3,653,289	(94%) of budgeted revenue.
Asbestos Fees	\$ 1,600,269	(70%) of budgeted revenue.
Toxic Inventory Fees	\$ 261,891	(47%) of budgeted revenue.
Penalties and Settlements	\$ 1,646,639	(97%) of budgeted revenue.
Miscellaneous Revenues	\$ 41,309	(31%) of budgeted revenue.
Interest Revenues	\$ 58,266	(31%) of budgeted revenue.

GENERAL FUND BUDGET: STATEMENT OF EXPENDITURES

Comparison of Budget to Actual Expenditures

Personnel - Salaries*	\$15,754,382	(45%) of budgeted expenditures.
Personnel - Fringe Benefits*	\$ 6,088,450	(40%) of budgeted expenditures.
Operational Services and Supplies	\$ 5,624,547	(26%) of budgeted expenditures.
Capital Outlay	\$ 1,875,499	(35%) of budgeted expenditures
* Consolidated (includes Special Funds)		



**CASH AND INVESTMENTS IN COUNTY TREASURY**

(Based on the December 2014 Account Balance)

General Fund	\$55,802,414
TFCA	\$69,198,172
MSIF	\$36,058,816
Carl Moyer	\$3,585,232
CA Goods Movement	\$16,334,757
<b>Total</b>	<b>\$180,979,391</b>

**FUND BALANCES**

	<b>6/30/2014 Audited</b>	<b>Board Approved Transfers</b>	<b>6/30/2015 Projected</b>
Building and Facilities	15,168,200	(1,000,000)	14,168,200
PERS Funding	800,000		800,000
Worker's Compensation	1,000,000		1,000,000
Post Employment Benefits	1,000,000		1,000,000
JD Edwards Software Upgrade	1,000,000		1,000,000
IT-Desktop Equipment	500,000		500,000
IT-Event Response	500,000		500,000
Capital Equipment	1,000,000		1,000,000
Tech-GHG Monitoring Equipment	360,900		360,900
Tech-Meteorological Network Equipment	417,100		417,100
Tech-Mobile Monitoring Instruments	450,000		450,000
Economic Uncertainties	10,114,309		10,114,309
<b>TOTAL SPECIAL RESERVES</b>	<b>\$ 32,310,509</b>	<b>\$ (1,000,000)</b>	<b>\$ 31,310,509</b>
<b>UNDESIGNATED</b>	<b>7,404,751</b>		<b>7,404,751</b>
<b>TOTAL FUND BALANCES</b>	<b>\$ 39,715,260</b>	<b>\$ (1,000,000)</b>	<b>\$ 38,715,260</b>

**VENDOR PAYMENTS**

In accordance with provisions of the Administrative Code, Division II Fiscal Policies and Procedures - Section 4 Purchasing Procedures: 4.3 Contract Limitations, staff is required to present recurring payments for routine business needs such as utilities, licenses, office supplies and the like, more than, or accumulating to more than \$70,000 for the fiscal year. In addition, this report includes all of the vendors receiving payments in excess of \$70,000 under contracts that have not been previously reviewed by the Board. In addition, staff will report on vendors that undertook work for the Air District on several projects that individually were less than \$70,000, but cumulatively exceed \$70,000.

Below is a list of vendors including payments made during the second quarter of 2014-2015 fiscal year that exceeded \$70,000 and meets the reporting criteria noted above. All expenditures have been appropriately budgeted as a part of the overall Air District budget for Fiscal Year 2014-15.

	<b>VENDOR NAME</b>	<b>AMOUNT PAID (July 2014 - December 2014)</b>	<b>Explanation</b>
1	ALLIANT INSURANCE SERVICES	415,976	Various Business Insurance Policies
2	CA PUBLIC EMPLOYEE RETIREMENT SYSTEM	3,114,540	Health Insurance Plan
3	CA PUBLIC EMPLOYEE RETIREMENT SYSTEM	4,084,760	Retirement Benefits & 457 Supplemental Plan
4	CAPCOA	618,831	Pass through EPA grants
5	COMPUCOM SYSTEMS, INC.	150,120	Microsoft license agreement
6	COMPUTER DISCOUNT WAREHOUSE	72,391	IT Servers Maintenance
7	CSAC EXCESS INSURANCE AUTHORITY	365,935	Life Insurance Plan & LTD Insurance
8	CUBIC TRANSPORTATIONS SYSTEMS	159,530	Clipper Transit Subsidy
9	EMPLOYEE BENEFIT SPECIALISTS	172,547	Medical & Dependent Care Flexible Spending Plan
10	ENTERPRISE FLEET SERVICES	194,348	Fleet Leasing and Maintenance services
11	EPLUS TECHNOLOGY, INC.	138,543	Cisco Manintence and Support
12	HARTFORD LIFE INS. CO.	209,099	457 Supplemental Plan
13	NETAPP INC.	85,198	SF & SAC Net Application Support
14	PACIFIC GAS & ELECTRIC COMPANY	222,907	Utilities
15	PREFERRED BENEFIT INSURANCE AD	299,212	Dental Insurance Plan
16	RENNE SLOAN HOLTZMAN & SAKAI	102,308	Human Resources Consulting Services
17	RICHMOND PARKWAY BUSINESS PARK	116,429	Building Lease
18	SONOMA TECHNOLOGY INC.	93,584	Programming & Special Studies
19	THERMO ENVIRONMENTAL INSTRUMENTS	125,691	Air monitoring and source test instrumentation
20	VERIZON WIRELESS	94,565	Cell phone services

**BUDGET CONSIDERATION/FINANCIAL IMPACT**

None; receive and file.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Stephanie Osaze  
Reviewed by: Jeff McKay

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

Memorandum

To: Chairperson Carole Grooms and Members  
of the Budget and Finance Committee

From: Jack P. Broadbent  
Executive Officer/APCO

Date: January 12, 2015

Re: Selection of a Contractor for Upgrade of the Air District Financial System

RECOMMENDED ACTION:

Recommend the Board of Directors:

1. Approve the selection of Denovo, a contractor to upgrade the Air District's Financial System.
2. Authorize the Executive Officer/APCO to enter into all necessary agreements with Denovo to upgrade the financial system in amount not to exceed \$1,358,036, and amend the Program 701 budget by the corresponding amount transferring \$1,000,000 from the *Reserve for JD Edwards Software Upgrade* and \$358,036 from the *Undesignated Fund Balance* for this purpose.

BACKGROUND

The Air District implemented JD Edwards (JDE) financial system (JDE) in 2004 and currently operates off this 10 year old platform. As the Air District's JDE software is outdated, it receives limited support from Oracle; which does not include new updates, security alerts, data fixes, and critical patch updates. The Air District is now seeking to upgrade its financial software to take advantage of new functionalities and enhancements offered by the current software version. These new upgrades will allow greater overall performance and productivity. This project requires a technical JDE expert to assist the Air District in this effort, including integration with the Air District's two billing systems: IRIS and Production System.

As part of the Fiscal Year 2014-2015 Adopted Budget, staff recommended and the Board approved a reserve of \$1,000,000 to be set-aside for this project with the understanding that staff would issue a Request for Proposal (RFP) and present recommendations for the Board's consideration and approval.

DISCUSSION

On September 29, 2014, the Air District issued a Request for Proposals (RFP) to solicit bids for JD Edwards EnterpriseOne 9.1 Upgrade. The District forwarded the RFP to JDE business partners, posted it on the California Society Municipal Officers’ website and posted it on the District’s website. A total of 4 firms attended on October 21, 2014 pre-bidders conference held at the Air District for the purpose of providing an outline of the RFP requirements and an opportunity to submit questions. The Air District received a total of 80 questions from interested parties by the October 16, 2014, deadline and responses to these questions were posted on the Air District’s website by November 6, 2014. The deadline to submit proposals was December 4, 2014. The Air District received proposals from the following five companies by the deadline December 4, 2014: AT&T; Denovo; Grant Thornton; Inventive Infotech; and SNP GL Associates.

**Evaluation of Proposals**

A panel, comprising of a deputy air pollution officer, the Information Technology officer, the finance manager, Metropolitan Transportation Commission technology staff and a JD Edwards consultant, conducted the evaluation and scoring of the proposals. The panel relied on the RFP’s listed six criteria to evaluate and score the proposals. The individual scores were then averaged to determine the recommended firm. Table 1 below shows each firm’s scores:

<b>TABLE 1: Scoring of Proposals</b>						
<b>CRITERIA</b>	<b>Max Points</b>	<b>AT&amp;T</b>	<b>Denovo</b>	<b>Grant Thornton</b>	<b>Inventive Infotech</b>	<b>SNP GL Assoc.</b>
Technical expertise, size and structure of the firm and personnel assigned to RFP tasks; firm's ability to perform and complete the work in a professional and timely manner	30	23	27	23	15	24
Past experience of the firm and, in particular, experience of the team working on projects of similar scope for other governmental agencies	30	22	26	22	19	24
Responsiveness of the proposal, based upon a clear understanding of the work to be performed	20	13	17	16	12	15
Cost or cost effectiveness and resource allocation strategy	10	3	6	5	8	7
References of the firm	5	3	4	2	2	3
Local business/Green Business	5	2	2	2	1	1
<b>TOTAL</b>	<b>100</b>	<b>66</b>	<b>82</b>	<b>70</b>	<b>57</b>	<b>74</b>

Based on the scores above and adherence to the evaluation criteria, staff is recommending Denovo for a contract not to exceed \$ 1,358,036 to conduct the upgrade of the Air District's financial system. This firm had the highest overall score, and scored highest on the criteria related to expertise, past experience, references and responsiveness of the proposal.

BUDGET CONSIDERATION/FINANCIAL IMPACT

The Fiscal Year 2014/2015 Finance Budget (Program 701) will be increased by \$1,358,036 with a transfer of the entire \$1,000,000 from the *Reserve for JD Edwards Software Upgrade* and \$358,036 transferred from *Undesignated Fund Balance*.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Stephanie Osaze  
Reviewed by: Jeff McKay