



AGENDA: 4

Bay Area Air Quality Management District

Air District Financial Audit Report –Fiscal Year Ending 2014

January 28, 2015



Gilbert Associates, Inc.
CPAs and Advisors

*Relax. We got this.*SM

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AUDIT DELIVERABLES

I. FINANCIAL STATEMENTS

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

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

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

The Financial Statements

Pages 3-13 **Management's Discussion and Analysis**

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

Pages 14-15 **Government-wide Statements**

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

The government-wide financial statements include:

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

AUDIT DELIVERABLES (Continued)

I. FINANCIAL STATEMENTS (Continued)

Pages 16-19 **Fund-based Statements**

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

Pages 20-39 **The Notes to the Financial Statements**

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

Required Supplementary Information

Page 40 Schedules of Funding Progress for PERS and OPEB

Pages 41-43 Budget and Actual Comparisons

- General Fund
- Special Revenue Fund

Supplementary Information

Page 44 Transportation Fund for Clean Air (TFCA) Program, Mobile Source Incentive Program, Carl Moyer Program, & Other Programs - Schedule of Expenditures

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

Page 1 **Schedule of Expenditures of Federal Awards - \$9,589,334**

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

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

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

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

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

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

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

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

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

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

- ⇒ No findings reported in prior year

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities and each major fund of the Bay Area Air Quality Management District (District) for the year ended June 30, 2014, and have issued our report thereon dated December 17, 2014. Professional standards require that we provide you with the following information related to our audit. We are providing the District's Budget and Finance Committee with information regarding the scope and results of the audit to assist the Committee in overseeing management's financial reporting and disclosure process. This information is intended solely for the use of the Board of Directors, Budget and Finance Committee, and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties. Below we summarize these required communications.

Area	Comments
<p>Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS), 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.</p> <p>The financial statements are the responsibility of management. As stated in our Contract, our responsibility is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.</p> <p>As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.</p> <p>Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.</p>	<p>We issued unmodified opinions on the financial statements and on the <i>Government Auditing Standards</i> and OMB Circular A-133 (Single Audit) reports of the District for the year ended June 30, 2014.</p>

Area	Comments
<p>Planned Scope and Timing of the Audit</p>	<p>We performed the audit according to the planned scope and timing previously communicated to you in our Contract.</p>
<p>Difficulties Encountered in Performing the Audit</p>	<p>We encountered no significant difficulties in dealing with management in performing and completing our audit. Management and staff were well prepared and cooperative.</p>
<p>Disagreements with Management</p> <p>For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report.</p>	<p>We are pleased to report that no such disagreements arose during the course of our audit.</p>
<p>Management Representations</p>	<p>We have requested certain representations from management that are included in their letter to us dated December 17, 2014.</p>
<p>Management Consultations with Other Independent Accountants</p> <p>In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.</p>	<p>To our knowledge, there were no such consultations with other accountants.</p>
<p>Significant Accounting Policies</p> <p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our Contract, we will advise management about the appropriateness of accounting policies and their application.</p>	<p>The significant accounting policies used by the District are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014.</p> <p>We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.</p>

Area	Comments
<p>Management Judgments and Accounting Estimates</p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and disclosures and because of the possibility that future events affecting them may differ significantly from those expected.</p>	<p>The most sensitive estimates and disclosures affecting the District's financial statements were:</p> <ul style="list-style-type: none"> • Management's estimate of the valuation of retirement and postretirement healthcare benefits expense and liabilities are based on actuarial projections. • Management's estimates of the useful lives of capital assets are based on historical experience and industry standards. <p>We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. In addition, the related financial statement disclosures are neutral, consistent, and clear.</p>
<p>Corrected and Uncorrected Misstatements</p> <p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.</p>	<p>One passed-on journal entry detected as a result of our audit procedures was not recorded by management. Management, with our concurrence, has determined that the effect is immaterial to the financial statements taken as a whole.</p> <ul style="list-style-type: none"> • The entry would decrease the General Fund's fund balance by \$161,158 to account for estimated claims liability loss reserves.
<p>Other Audit Findings or Issues</p>	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.</p>
<p>Required Supplementary Information</p> <p>Government Accounting Standards Board (GASB) requires certain supplementary information to accompany the District's basic financial statements to be in conformity with generally accepted accounting principles. Such information has been subjected to limited procedures such as inquires of management about the methods of preparing the information and comparing the information for consistency with the basic financial statements, however, we do not express an opinion because of the limited nature of our procedures.</p>	<p>The following required supplementary information is required to accompany the District's basic financial statements and subjected to limited procedures, but no opinion has been expressed:</p> <ul style="list-style-type: none"> • Management's Discussion and Analysis • Schedules of Funding Progress • Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund & Special Revenue Fund
<p>Supplementary Information</p> <p>With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.</p>	<p>The supplementary information identified below is presented for purposes of additional analysis and is not a required part of the financial statements and in our opinion is fairly stated in all material respects in relation to the financial statements as a whole.</p> <ul style="list-style-type: none"> • Transportation Fund for Clean Air (TFCA) Program, Mobile Source Incentive Program, Carl Moyer Program & Other Programs – Schedule of Expenditures

GASB 68: Accounting & Financial Reporting for Pensions – An Amendment of GASB 27



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Classification of Defined Benefit Plans

Single Employer

- Provides pensions to employees of one employer

Agent Multi-Employer

- Provides pension to employees of more than one employer
- Assets are pooled for investment purposes, but separate accounts are maintained for each employer

Cost-Sharing Multi-Employer

- Provides pensions to employees of more than one employer
- Employers pool their assets and their obligations



Why is it important?

- Practically no information about an employer's pension obligation has previously been reported in the financial statements.
- Under GASB 68, the employer's cumulative net pension liability will appear plainly on the face of the financial statements for the first time, along with the employer's other long-term liabilities.
- GASB 68 is effective for fiscal years beginning after **June 15, 2014** (i.e. your next annual financial statement close!)



Old

- Pension liability and expense recorded based on funding requirements
- Pension liability is not recognized on the face of the financial statements
- Six accepted actuarial cost methods

New

- First-year implementation will include a restatement of beginning net position for all years presented
- Additional note disclosures and required supplementary information (RSI)
- One accepted actuarial cost method



The Basics

- GASB 68 requires recording of net pension liability (NPL) in full-accrual financial statements (government wide)
 - No significant changes to accounting for pensions in modified accrual (governmental funds)
 - No changes to budgets

$$\text{Total Pension Liability (TPL)} - \text{Plan Net Position} = \text{Net Pension Liability (NPL)}$$

- Total pension liability: the actuarial present value of projected benefit payments attributed to past employee service
- Plan net position: the balance of the plan's equity



Single-Employer & Agent Plans: Disclosures

Descriptions of pension plan and benefits provided

Disclosure of significant assumptions and other inputs

Descriptions of benefit changes and changes in assumptions

Disclosure of assumptions related to the discount rate, and the effect of a +/- 1% change in the discount rate on NPL

The net pension liability and the beginning of the year, the changes in the net pension liability during the year presented by cause, and the ending net pension liability

Balances of deferred inflows and outflows, presented by source

Future expense schedule of deferred inflows and outflows

Miscellaneous other disclosures



Single-Employer & Agent Plans: RSI

Schedule of changes in the TPL, PNP, NPL (10 years)

Related ratios (10 years) – can be combined with the first schedule

Schedule of contributions and contribution ratio (10 years)

Notes to RSI include methods and assumptions used, factors that significantly affect trends in the amounts reported, etc.





Bay Area Air Quality Management District

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Budget & Finance Committee Meeting

January 28, 2015

Second Quarter Financial Report Fiscal Year Ending 2015

Stephanie Osaze
Finance Manager



OVERVIEW

General Fund Reporting on 2nd quarter financial results (July 1, 2014 – December 31, 2014):

- Revenues
- Expenditures
- Investments
- General Fund Balance
- Purchasing Report Requirements



2nd Quarter Results FYE 2015

General Fund - Revenues

Major Categories	FYE 2015 Budget	FYE 2015 Actual (as of 12/31/2014)	Percentage of Budgeted Revenues
County receipts	\$ 22,523,540	\$ 10,848,105	48%
Permit Fees	\$ 27,519,936	\$ 22,513,786	82%
Title V Permit Fees	\$ 3,867,100	\$ 3,653,289	94%
Asbestos Fees	\$ 2,300,000	\$ 1,600,269	70%
Toxic Inventory Fees	\$ 554,359	\$ 261,891	47%
Penalties and Settlements	\$ 1,700,000	\$ 1,646,639	97%
Interest Revenue	\$ 134,717	\$ 41,309	31%
Miscellaneous Revenue	\$ 190,000	\$ 58,266	31%
Total Revenues	\$ 58,789,652	\$ 40,623,554	69%



Revenue Comparison

Prior Year vs. Current Year

	FYE 2014 (As of December 31, 2013)	FYE 2015 (As of December 31, 2014)	\$ DIFFERENCE
County receipts	\$ 8,975,501	\$ 10,848,105	\$ 1,872,604
Permit Fee receipts	\$ 19,966,410	\$ 22,513,786	\$ 2,547,376
Title V Permit Fees	\$ 3,008,853	\$ 3,653,289	\$ 644,436
Asbestos Fees	\$ 1,394,461	\$ 1,600,269	\$ 205,809
Toxic Inventory Fees	\$ 315,913	\$ 261,891	\$ (54,022)
Penalties and Settlements	\$ 1,413,949	\$ 1,646,639	\$ 232,690
Miscellaneous Revenue	\$ 50,580	\$ 41,309	\$ (9,271)
Interest Revenue	\$ 496,501	\$ 58,266	\$ (438,235)
TOTAL REVENUES	\$ 35,622,167	\$ 40,623,554	\$ 5,001,387



2nd Quarter Results FYE 2015

General Fund - Expenses

Major Categories	FY 2015 Budget	FYE 2015 Actual (as of 12/31/2014)	Percentage of Budgeted Expenditures
* Personnel - Salaries	\$ 35,030,516	\$ 15,754,382	45%
* Personnel - Fringe Benefits	\$ 15,399,074	\$ 6,088,450	40%
Operational Services and Supplies	\$ 21,267,586	\$ 5,624,547	26%
Capital Outlay	\$ 5,295,352	\$ 1,875,499	35%
Total Expenditures	\$ 76,992,528	\$ 29,342,878	38%
* Consolidated (Includes Special Funds)			



Expenditure Comparison

Prior Year vs. Current Year

	FYE 2014 (As of December 31, 2013)	FYE 2015 (As of December 31, 2014)	\$ DIFFERENCE
*Personnel - Salaries	\$ 15,479,599	\$ 15,754,382	\$ 274,783
*Personnel - Fringe Benefits	\$ 5,888,553	\$ 6,088,450	\$ 199,897
Operational Services and Supplies	\$ 6,003,645	\$ 5,624,547	\$ (379,098)
Capital Outlay	\$ 1,358,045	\$ 1,875,499	\$ 517,454
TOTAL EXPENDITURES	\$ 28,729,842	\$ 29,342,878	\$ 613,036
*Consolidated includes Special Funds			



2nd Quarter Results FYE 2015

Investments

Cash and Investments with 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
TOTAL	<u>\$180,979,391</u>



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General Fund - Fund Balance

GENERAL FUND	6/30/2014	Board Approved	6/30/2015
	Audited	Transfers	Projected
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-Meterological Network Equipment	417,100		417,100
Tech-Mobile Monitoring Instruments	450,000		450,000
Economic Uncertainties	10,114,309		10,114,309
TOTAL SPECIAL RESERVES	\$ 32,310,509	\$ (1,000,000)	\$ 31,310,509
UNDESIGNATED	7,404,751		7,404,751
TOTAL FUND BALANCES	\$ 39,715,260	\$ (1,000,000)	\$ 38,715,260



Purchasing Reporting Requirements

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

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

- In an effort of full disclosure, list also includes benefit payments.



FYE 2015 Vendor Payments

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

	VENDOR NAME	AMOUNT PAID (July 2014 - December 2014)	Explanation
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 Manintenance 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



BAY AREA
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Budget and Finance Committee

January 28, 2015

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

Jeff McKay
Deputy Air Pollution Control Officer



OUTLINE

- *Background*
- *RFP Process*
- *RFP Evaluation Criteria & Scoring Results*
- *Recommendations*



BACKGROUND

- **District implemented JDE in 2004**
 - Software is outdated and has limited support
 - Update will allow greater overall performance and increase productivity, take advantage of new functionalities & enhancements
 - Project requires a JDE technical expert to implement the upgrade & ensure successful integration with IRIS & Production billing systems
- **Board approved reserve of \$1M for the project as a part of the FY2015 Budget**



RFP PROCESS

- **Process for Developing & Issuing Request for Proposal (RFP)**
 - Hired JDE consultant to assist in the development of the RFP
 - Scope of work includes implementation services, web hosting solutions, on-going training, and technical support
 - RFP solicitation released September 29, 2014
 - On-site pre-bidders meeting held October 21, 2014
 - Responses to RFP questions posted by November 6, 2014
 - Received 5 proposals by December 4, 2014 submittal deadline: AT&T; Denovo; Grant Thornton; Inventive Infotech; and SNP GL Associates



RFP PROCESS

- **Process for Evaluating Proposals**
 - 5 panelists evaluated proposals based on the RFP criteria
 - Denovo received the highest overall score of 82
 - Cost of proposal is estimated at \$1.3M



RFP EVALUATION CRITERIA AND SCORING RESULTS

CRITERIA	Max Points	AT&T	Denovo	Grant Thornton	Inventive Infotech	SNP GL Assoc.
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
TOTAL	100	66	82	70	57	74



RECOMMENDATIONS

Recommend Board of Directors:

1. Approve the selection of Denovo to upgrade the District's Financial System
2. Authorize the Executive Officer/APCO to execute contract in an amount not to exceed \$1,358,036

Amend Program 701 budget transferring \$1M from Reserves and \$358,036 from undesignated fund balance.