

Bay Area Air Quality Management District

Budget & Finance Committee Meeting

January 27, 2015



Gilbert Associates, Inc.
CPAs and Advisors

Relax. We got this.SM

Contents

	Page
Overview of Audit Deliverables	3
I. Financial Statements	
II. Single Audit	
Communications with Those Charged With Governance	6

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 1-3 **The Independent Auditor's Report on Financial Statements**

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

The Financial Statements

Pages 4-13 **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 20-42 **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.

- Note 10 – Pension Plan: Presents new note disclosures related to District’s implementation GASB 68

Required Supplementary Information

- Page 43 Schedules of Funding Progress for OPEB
- Page 44 Schedule of Changes to the District’s Net Pension Liability and Related Ratios
- Page 45 Schedule of the District’s Contributions
- Pages 46-47 Budget and Actual Comparisons
- General Fund
 - Special Revenue Fund

Supplementary Information

- Page 49 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 - \$6,379,761**

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, 2015, and have issued our report thereon dated December 18, 2015. 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, 2015.</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 18, 2015.</p>
<p>Management Consultations with Other Independent Accountants</p> <p>In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.</p>	<p>To our knowledge, there were no such consultations with other accountants.</p>
<p>Significant Accounting Policies</p> <p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our Contract, we will advise management about the appropriateness of accounting policies and their application.</p>	<p>The significant accounting policies used by the District are described in Note 1 of the financial statements.</p> <p>As described in Note 1 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statements No. 68 and 71 during the fiscal year ending June 30, 2015. The implementation of GASB Statements 68 and 71 resulted in a reduction of beginning net position of \$59,901,136.</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 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. • Management's estimate of the net pension liability and related deferred inflows and outflows of resources is based upon the District's CalPERS plan pension amounts as of the June 30, 2014 measurement date. CalPERS calculates the net pension liability by reducing the total pension liability (actuarially-determined by rolling-forward obligations from the June 30, 2013 actuarial valuation using standard update procedures) by the plan's fiduciary net position as of the measurement date. <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 \$128,974 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 • Schedule of Funding Progress • Schedule of Changes in the District's Net Pension Liability and Related Ratios • Schedule of the District's Contributions • Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund & Special Revenue Fund

Area	Comments
<p>Supplementary Information</p> <p>With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.</p>	<p>The supplementary information identified below is presented for purposes of additional analysis and is not a required part of the financial statements and in our opinion is fairly stated in all material respects in relation to the financial statements as a whole.</p> <ul style="list-style-type: none"> • Transportation Fund for Clean Air (TFCA) Program, Mobile Source Incentive Program, Carl Moyer Program & Other Programs – Schedule of Expenditures



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 5

Bay Area Air Quality Management District

Budget & Finance Committee Meeting

January 27, 2016

Second Quarter Financial Report

Fiscal Year Ending 2016

Stephanie Osaze
Finance Manager



OVERVIEW

General Fund Reporting on 2nd Quarter financial results (July 1, 2015 – December 31, 2015):

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



2nd Quarter Results FYE 2016

General Fund - Revenues

Major Categories	FYE 2016 Budget	FYE 2016 Actual (as of 12/31/2015)	Percentage of Budgeted Revenues
County receipts	\$ 24,479,345	\$ 10,675,534	44%
Permit Fees	\$ 28,975,000	\$ 24,272,445	84%
Title V Permit Fees	\$ 4,325,000	\$ 3,661,749	85%
Asbestos Fees	\$ 2,400,000	\$ 1,905,610	79%
Toxic Inventory Fees	\$ 555,000	\$ 223,017	40%
Penalties and Settlements	\$ 2,000,000	\$ 5,082,455	254%
Interest Revenue	\$ 190,000	\$ 85,226	45%
Miscellaneous Revenue	\$ 114,717	\$ 34,433	30%
Total Revenues	\$ 63,039,062	\$ 45,940,469	73%



Revenue Comparison

Prior Year vs. Current Year

	FYE 2015 (As of December 31, 2014)	FYE 2016 (As of December 31, 2015)	\$ DIFFERENCE
County receipts	\$ 12,325,035	\$ 10,675,534	\$ (1,649,501)
Permit Fee receipts	\$ 22,537,556	\$ 24,272,445	\$ 1,734,889
Title V Permit Fees	\$ 3,653,289	\$ 3,661,749	\$ 8,460
Asbestos Fees	\$ 1,604,353	\$ 1,905,610	\$ 301,258
Toxic Inventory Fees	\$ 261,771	\$ 223,017	\$ (38,754)
Penalties and Settlements	\$ 3,465,816	\$ 5,082,455	\$ 1,616,639
Interest Revenue	\$ 137,312	\$ 85,226	\$ (52,086)
Miscellaneous Revenue	\$ 34,651	\$ 34,433	\$ (218)
TOTAL REVENUES	\$ 44,019,782	\$ 45,940,469	\$ 1,920,687



2nd Quarter Results FYE 2016

General Fund - Expenses

Major Categories	FY 2016 Budget	FYE 2016 Actual (as of 12/31/2015)	Percentage of Budgeted Expenditures
* Personnel - Salaries	\$ 36,405,814	\$ 16,186,516	44%
* Personnel - Fringe Benefits	\$ 17,986,412	\$ 6,896,254	38%
Operational Services and Supplies	\$ 18,060,988	\$ 8,874,942	49%
Capital Outlay	\$ 4,000,615	\$ 4,339,071	108%
Office Acquisition	\$ 9,000,000	\$ -	0%
Total Expenditures	\$ 85,453,829	\$ 36,296,783	42%
* Consolidated (Includes Special Funds)			



Expenditure Comparison

Prior Year vs. Current Year

	FYE 2015 (As of December 31, 2014)	FYE 2016 (As of December 31, 2015)	\$ DIFFERENCE
*Personnel - Salaries	\$ 14,411,638	\$ 16,186,516	\$ 1,774,878
*Personnel - Fringe Benefits	\$ 5,771,793	\$ 6,896,254	\$ 1,124,461
Operational Services and Supplies	\$ 7,418,824	\$ 8,874,942	\$ 1,456,118
Capital Outlay	\$ 1,875,499	\$ 4,339,071	\$ 2,463,572
TOTAL EXPENDITURES	\$ 29,477,754	\$ 36,296,783	\$ 6,819,029
*Consolidated includes Special Funds			



2nd Quarter Results FYE 2016

Investments

Cash and Investments with County Treasury:

(Based on the December 2015 Account Balance)

General Fund	\$53,426,060
TFCA	\$72,924,265
MSIF	\$30,643,303
Carl Moyer	\$8,669,025
CA Goods Movement	\$8,540,921
BikeShare	\$2,230,961
TOTAL	<u>\$176,434,534</u>



BAY AREA
AIR QUALITY
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General Fund - Fund Balance

	6/30/2014	6/30/2015	6/30/2016
FUND BALANCES	Audited	Audited	Projected
Reserve for Building and Facilities	\$ 500,000	\$ -	-
Reserve for Capital Equipment Contingency	\$ 1,000,000	\$ 1,000,000	1,360,000
Reserve for Economic Contingency	\$ 10,114,309	\$ 10,114,309	14,501,024
Reserve for Fleet Contingency	\$ -	\$ -	1,000,000
Reserve for IT-Desktop Equipment	\$ 500,000	\$ 500,000	500,000
Reserve for IT- Event Response	\$ 500,000	\$ 500,000	500,000
Reserve for JD Edwards Software Upgrade	\$ 1,000,000	\$ -	-
Reserve for Pension & Post Employment Liability	\$ 1,800,000	\$ 1,800,000	1,600,000
Reserve for Tech- GHG Monitoring Equipment	\$ 360,900	\$ -	-
Reserve for Tech- Meterological Network Equipment	\$ 417,100	\$ 417,100	417,100
Reserve for Tech- Mobile Monitoring Instruments	\$ 450,000	\$ 450,000	450,000
Reserve for GHG Abatement Technology Study			500,000
Reserve for Woodsmoke Program			1,000,000
Reserve for Worker's Comp Self -Funding	\$ 1,000,000	\$ 1,000,000	1,000,000
TOTAL RESERVES	\$ 17,642,309	\$ 15,781,409	\$ 22,828,124
Use of Fund Balance			(1,316,825)
Undesignated Fund Balance	\$ 7,404,751	\$ 15,122,475	\$ 8,075,760
TOTAL RESERVES/ UNDESIGNATED	\$ 25,047,060	\$ 30,903,884	\$ 29,587,059
Building Proceeds	\$ 14,668,200	\$ 14,168,200	5,168,200
TOTAL BUILDING PROCEEDS	\$ 14,668,200	\$ 14,168,200	5,168,200
TOTAL FUND BALANCE	\$ 39,715,260	\$ 45,072,084	\$ 34,755,259



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 2016 Vendor Payments

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

	VENDOR NAME	AMOUNT PAID (July 2015 - December 2015)	Explanation
1	ALLIANT INSURANCE SERVICES	423,419	Various Business Insurance Policies
2	BENEFITS COORDINATORS CORP.	340,725	Life Insurance Plan & LTD Insurance
3	CA PUBLIC EMPLOYEE RETIREMENT SYSTEM	3,907,742	Health Insurance Plan
4	CA PUBLIC EMPLOYEE RETIREMENT SYSTEM	4,438,225	Retirement Benefits & 457 Supplemental Plan
5	CAPCOA	699,063	Pass through EPA grants
6	COMCAST	77,244	Internet Connections
7	CSAC EXCESS INSURANCE AUTHORITY	129,609	Life Insurance Plan & LTD Insurance
8	CUBIC TRANSPORTATIONS SYSTEMS	205,582	Clipper Transit Subsidy
9	EMPLOYEE BENEFIT SPECIALISTS	177,831	Medical & Dependent Care Flexible Spending Plan
10	ENTERPRISE FLEET SERVICES	249,036	Fleet Leasing and Maintenance services
11	HARTFORD LIFE INS. CO.	296,698	457 Supplemental Insurance
12	PACIFIC GAS & ELECTRIC COMPANY	286,892	Utilities
13	PREFERRED BENEFIT INSURANCE AD	394,950	Dental Insurance Plan
14	VERIZON WIRELESS	102,831	Cell phone services



**BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT**

Air District Financial Overview

Budget and Finance Committee

January 27, 2016

Jeff McKay

Deputy Air Pollution Control Officer



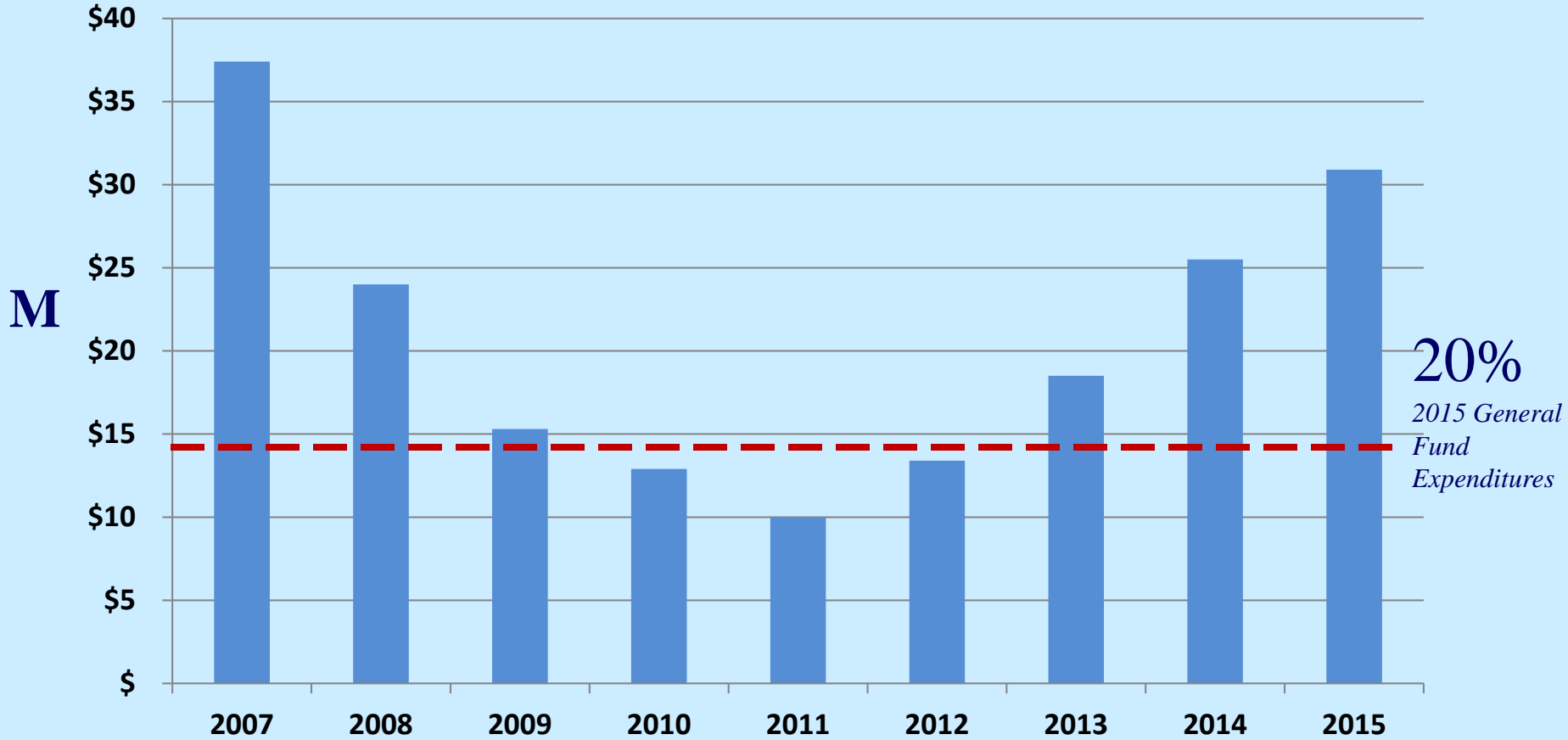
OUTLINE

- *FYE 2016*: Status at Mid-Year
- *FYE 2017*: Preview of Topics for the Budget Process



DISTRICT RESERVE FUNDS

Audited Values





Actions Taken During Downturn

- Reserves Used for General Fund Expenditures
- Vacancies Unfilled
- Reduced Expenses
- Deferred Capital Investment
- Cost Recovery Policy Initiated
- Continued Funding of Retirement Liabilities



Summary of Actions Taken During the FYE 2016 Budget

- \$72.5 M General Fund Budget
- Incorporates Cost Recovery Policy
- Additional GHG funding for 2 new positions
- Hire Staff: From 329 to 334 filled positions
- Prefund CalPERS \$250k
- Reserve Policy 15% to 20%



FYE 2016 MID-YEAR

FYE 2016 MID-YEAR



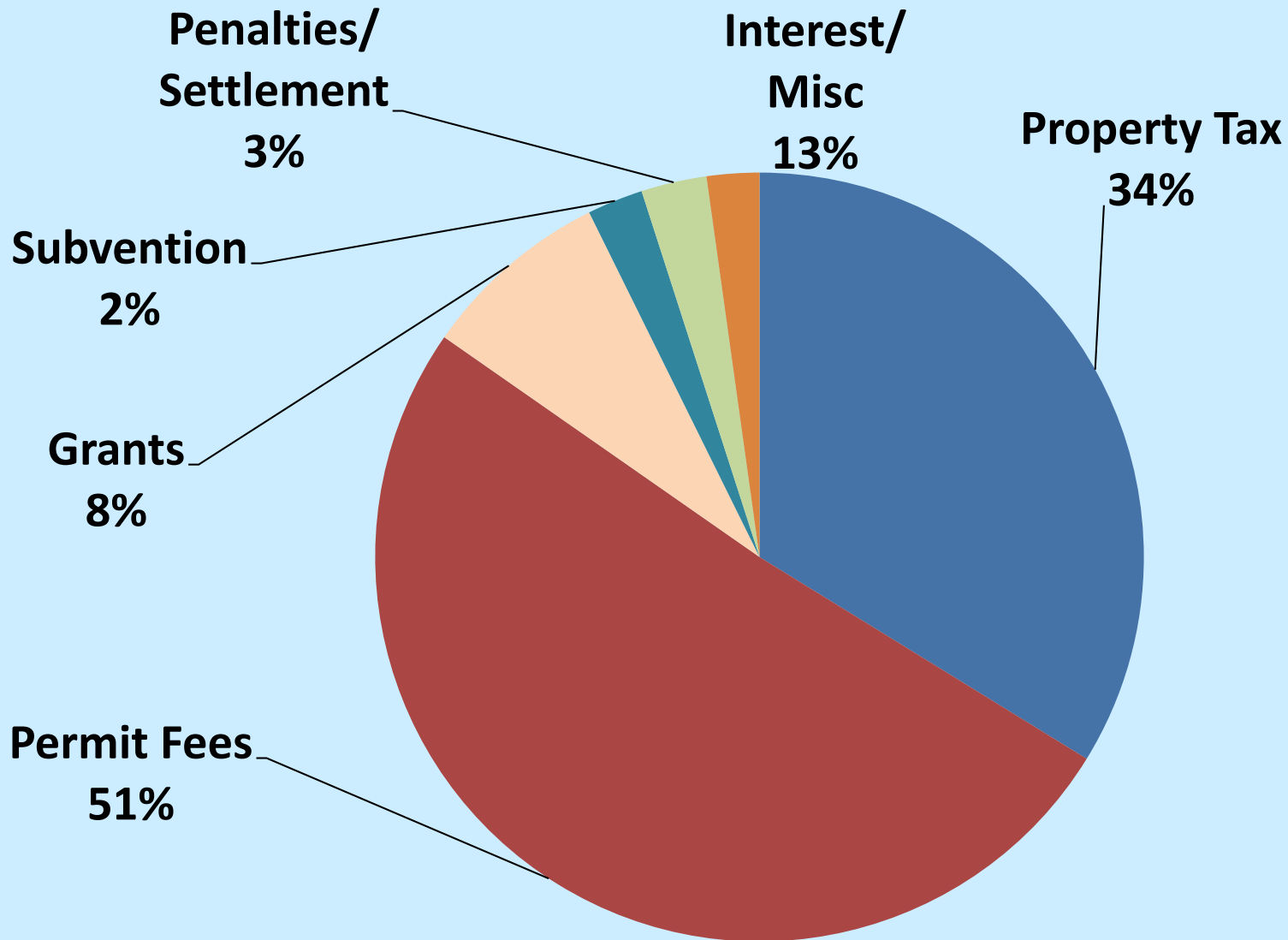
FISCAL YEAR END (FYE) 2016

Mid-Year Summary

- Strategic Filling of Some Vacant Positions
- Revenues and Expenditures Remain on Budget
- GF Reserves (excluding building proceeds): \$31M

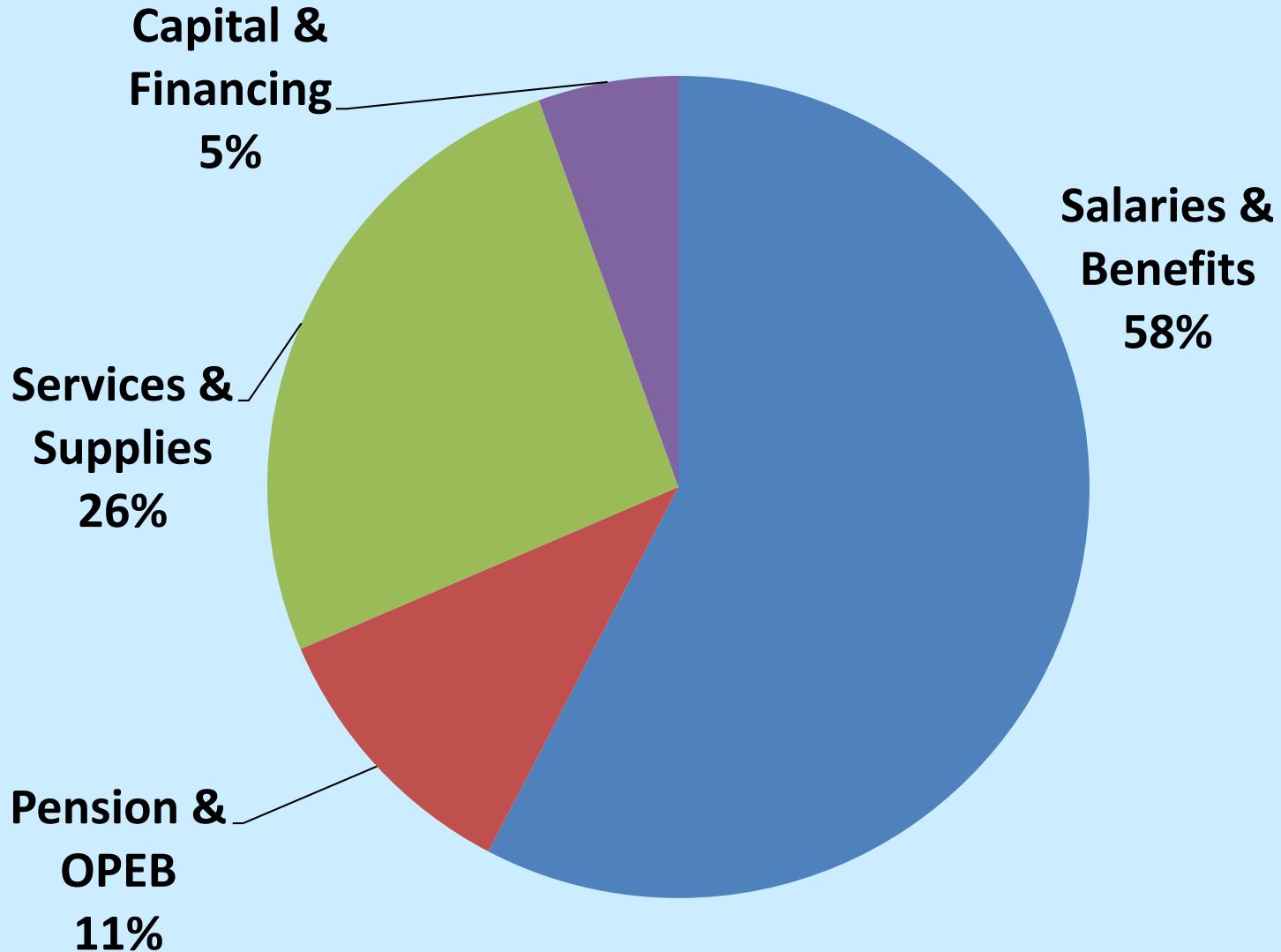


GENERAL FUND REVENUE SOURCES (FYE 2016 ADOPTED BUDGET)



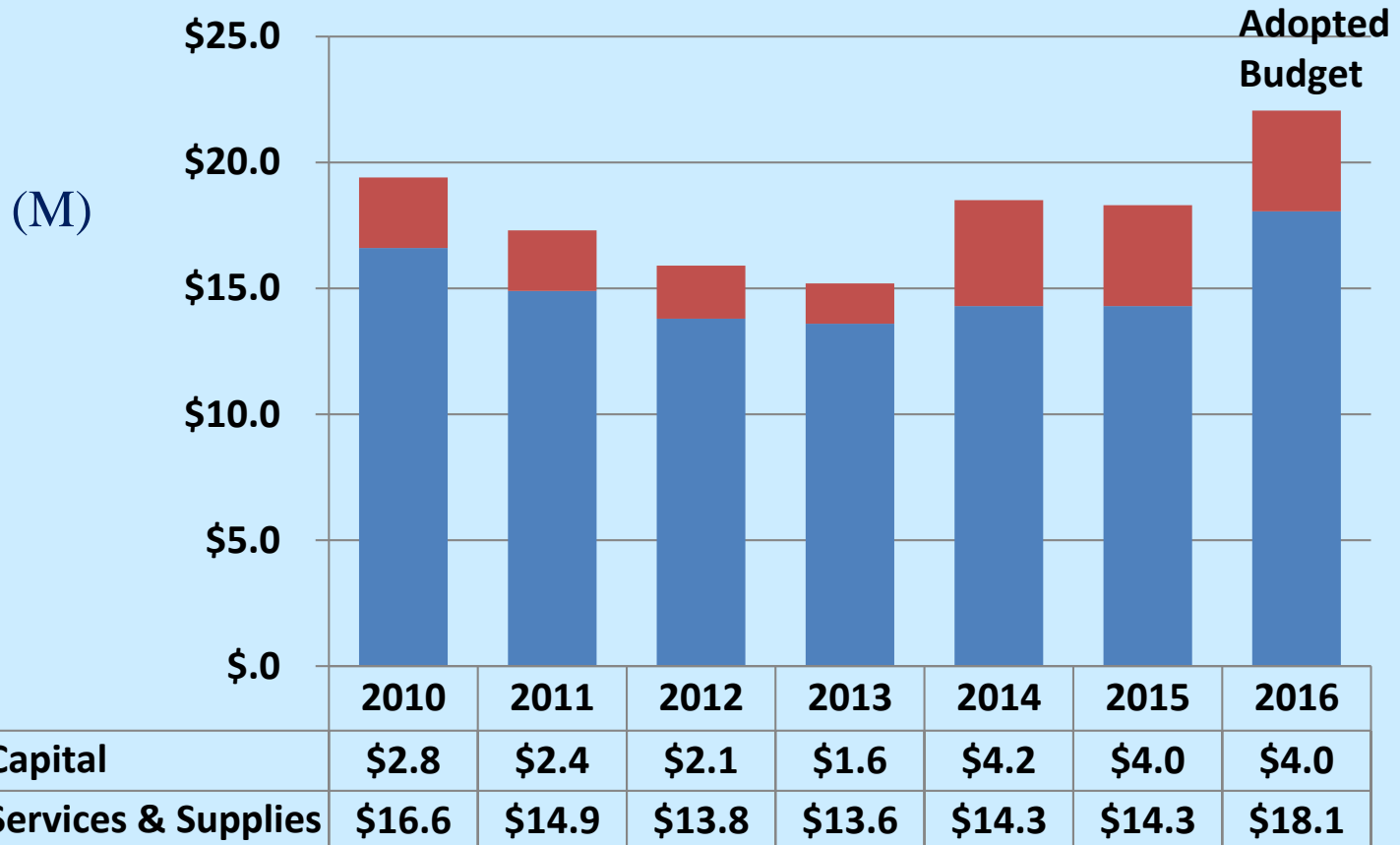


GENERAL FUND EXPENDITURE (FYE 2016 ADOPTED BUDGET)





ACTUAL EXPENDITURE TRENDS





FYE 2017 BUDGET TOPICS

FYE 2017 BUDGET TOPICS



FYE 2017 BUDGET HIGHLIGHTS

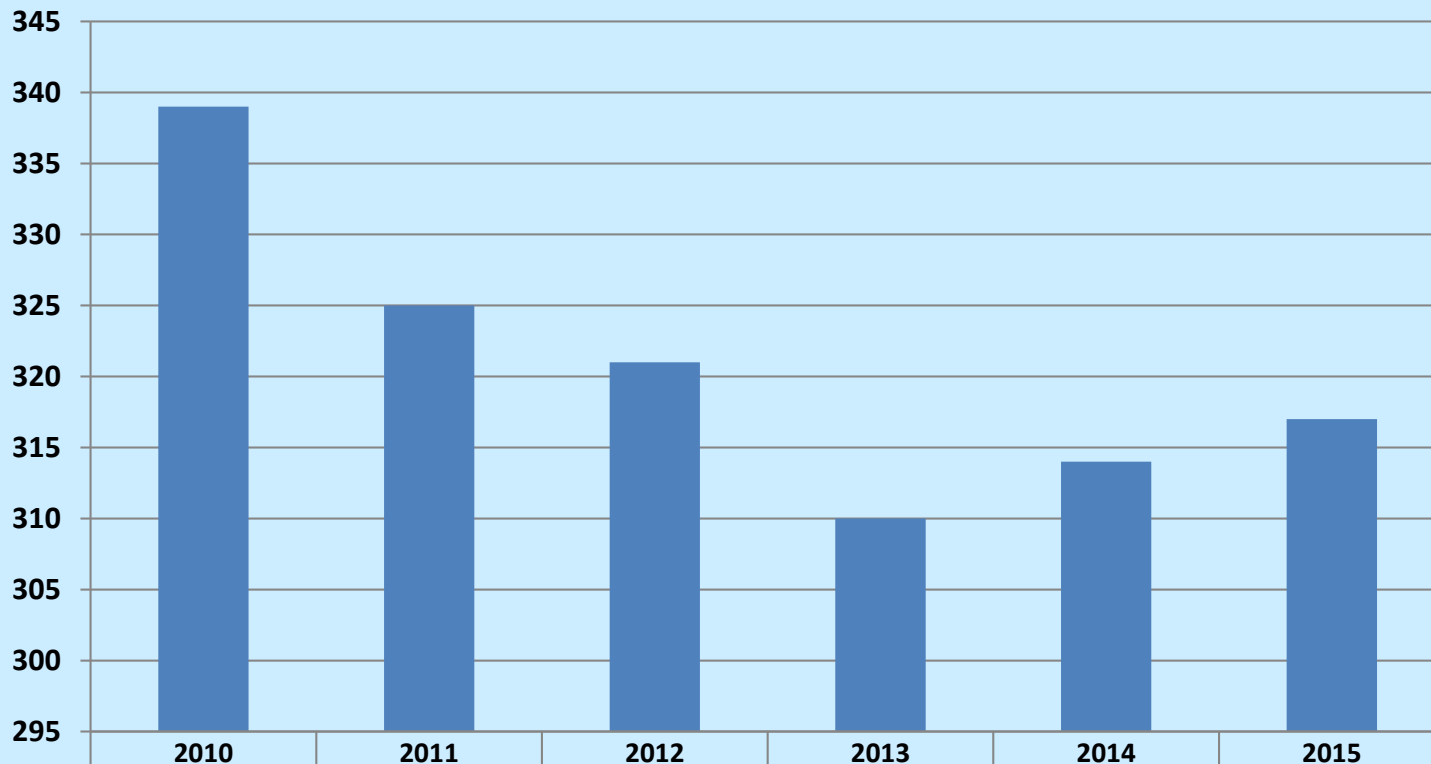
- Hiring
- Cost of Living Increase (2.2%)
- Unfunded Liabilities
- Cost Recovery



CURRENT VACANCY RATE & STAFFING TREND

As of December 2015

Budgeted Positions	Vacancies	Percentage
334	24	7%



Staffing Levels	2010	2011	2012	2013	2014	2015
	339	325	321	310	314	317



UNFUNDED LIABILITIES

Based on June 30, 2014 Valuations

- **CalPERS Retirement**
 - **\$256M Obligation: 81% Funded**
- **2016 Prefund Amount: \$250,000**
- **2017 Prefund Amount: open**



UNFUNDED OPEB LIABILITIES

Based on June 30, 2015 Valuations

- **OPEB Medical**
 - \$60 M Obligation: 50% Funded
- **New Funding Policy: 90% Funding Level**
 - No Target Date
 - FYE 2016 Pre-fund: \$3M



COST RECOVERY

- Historical fee increases averaged 10% annually
- Cost Recovery Policy implemented in FYE 2013
 - Projected 6.4% annual fee increase
 - Regulated community gains predictable fees



NEW OFFICE BUILDING OBLIGATIONS

- **375 Beale projected acquisition date: March 2016**
 - Contribution of \$9M; reducing obligation
 - Monthly Base Rent is \$100,000



NEXT STEPS

- **March 16** – Board Refers Budget to the Committee
- **March 23** – Committee receives Proposed Budget & Proposed Fee Presentation
- **April 27** – Committee refers Budget Recommendations to the Board