



BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

CAROLE GROOM – CHAIRPERSON
DAVID CANEPA
JOHN GIOIA
NATE MILEY
MARK ROSS

KATIE RICE – VICE CHAIRPERSON
CINDY CHAVEZ
DAVE HUDSON
KAREN MITCHOFF

WEDNESDAY
JANUARY 25, 2017
9:30 A.M.

1ST FLOOR YERBA BUENA ROOM, ROOM #109
375 BEALE STREET
SAN FRANCISCO, CA 94105

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, 375 Beale Street, San Francisco, CA, and on the Air District's website 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 DECEMBER 16, 2016**

Clerk of the Boards/5073

The Committee will consider approving the draft minutes of the Board of Directors Budget and Finance Committee Meeting of December 16, 2016.

4. **AIR DISTRICT FINANCIAL AUDIT REPORT FOR FISCAL YEAR ENDING 2016**

J. McKay/4629

jmckay@baaqmd.gov

The Committee will receive a report of the Fiscal Year Ending 2016 audit.

5. **SECOND QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING 2017**

J. McKay/4629

jmckay@baaqmd.gov

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

6. **OVERVIEW OF CURRENT FISCAL YEAR ENDING 2017**

J. McKay/4629

jmckay@baaqmd.gov

The Committee will receive projections for the Air District's current Fiscal Year Ending 2017.

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 22, 2017, Bay Area Air Quality Management District Office, 375 Beale Street, San Francisco, California 94105 at 9:30 a.m.

9. **ADJOURNMENT**

The Committee meeting shall be adjourned by the Committee Chair.

CONTACT:

MANAGER, EXECUTIVE OPERATIONS
375 BEALE STREET, SAN FRANCISCO, CA 94105
mmartinez@baaqmd.gov

(415) 749-5016
FAX: (415) 928-8560
BAAQMD homepage:
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.
- 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 375 Beale Street, Suite 600, San Francisco, CA 94105, at the time such writing is made available to all, or a majority of all, members of that body.

Accessibility and Non-Discrimination Policy

The Bay Area Air Quality Management District (Air District) does not discriminate on the basis of race, national origin, ethnic group identification, ancestry, religion, age, sex, sexual orientation, gender identity, gender expression, color, genetic information, medical condition, or mental or physical disability, or any other attribute or belief protected by law.

It is the Air District’s policy to provide fair and equal access to the benefits of a program or activity administered by Air District. The Air District will not tolerate discrimination against any person(s) seeking to participate in, or receive the benefits of, any program or activity offered or conducted by the Air District. Members of the public who believe they or others were unlawfully denied full and equal access to an Air District program or activity may file a discrimination complaint under this policy. This non-discrimination policy also applies to other people or entities affiliated with Air District, including contractors or grantees that the Air District utilizes to provide benefits and services to members of the public.

Auxiliary aids and services including, for example, qualified interpreters and/or listening devices, to individuals who are deaf or hard of hearing, and to other individuals as necessary to ensure effective communication or an equal opportunity to participate fully in the benefits, activities, programs and services will be provided by the Air District in a timely manner and in such a way as to protect the privacy and independence of the individual. Please contact the Non-Discrimination Coordinator identified below at least three days in advance of a meeting so that arrangements can be made accordingly.

If you believe discrimination has occurred with respect to an Air District program or activity, you may contact the Non-Discrimination Coordinator identified below or visit our website at www.baaqmd.gov/accessibility to learn how and where to file a complaint of discrimination.

Questions regarding this Policy should be directed to the Air District’s Non-Discrimination Coordinator, Rex Sanders, at (415) 749-4951 or by email at rsanders@baaqmd.gov.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
375 BEALE STREET, SAN FRANCISCO, CALIFORNIA 94105
FOR QUESTIONS PLEASE CALL (415) 749-5016 or (415) 749-4941

EXECUTIVE OFFICE:
MONTHLY CALENDAR OF AIR DISTRICT MEETINGS

JANUARY 2017

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Executive Committee <i>(Meets on the 3rd Monday of each Month) - CANCELLED</i>	Monday	16	9:30 a.m.	1 st Floor Board Room
Board of Directors Stationary Source Committee <i>(Meets on the 3rd Monday of each Month) - CANCELLED</i>	Monday	16	10:30 a.m.	1 st Floor Board Room
Board of Directors Special Meeting/Retreat <i>(Meets on the 1st & 3rd Wednesday of each Month)</i>	Wednesday	18	9:45 a.m.	Computer History Museum Hahn Auditorium 1401 N. Shoreline Blvd Mountain View, CA 94043
Board of Directors Climate Protection Committee <i>(Meets 3rd Thursday of Every Other Month) - CANCELLED</i>	Thursday	19	9:30 a.m.	1 st Floor Board Room
Board of Directors Budget & Finance Committee <i>(Meets on the 4th Wednesday of each Month)</i>	Wednesday	25	9:30 a.m.	1st Floor, Yerba Buena Room #109
Board of Directors Mobile Source Committee <i>(Meets on the 4th Thursday of each Month)</i>	Thursday	26	9:30 a.m.	1 st Floor Board Room
Board of Directors Stationary Source Committee <i>(Meets on the 3rd Monday of each Month) -</i>	Monday	30	9:30 a.m.	1 st Floor Board Room

FEBRUARY 2017

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Regular Meeting <i>(Meets on the 1st & 3rd Wednesday of each Month)</i>	Wednesday	1	9:45 a.m.	1 st Floor Board Room
Advisory Council Meeting <i>(At the Call of the Chair)</i>	Monday	6	10:00 a.m.	1 st Floor Board Room
Board of Directors Regular Meeting <i>(Meets on the 1st & 3rd Wednesday of each Month)- CANCELLED</i>	Wednesday	15	9:45 a.m.	1 st Floor Board Room
Board of Directors Executive Committee <i>(Meets on the 3rd Monday of each Month) - CANCELLED</i>	Monday	20	9:30 a.m.	1 st Floor Board Room
Board of Directors Stationary Source Committee <i>(Meets on the 3rd Monday of each Month) - CANCELLED</i>	Monday	20	10:30 a.m.	1 st Floor Board Room

FEBRUARY 2017

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Budget & Finance Committee <i>(Meets on the 4th Wednesday of each Month)</i>	Wednesday	22	9:30 a.m.	1st Floor, Yerba Buena Room #109
Board of Directors Mobile Source Committee <i>(Meets on the 4th Thursday of each Month)</i>	Thursday	23	9:30 a.m.	1 st Floor Board Room

MARCH 2017

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Regular Meeting <i>(Meets on the 1st & 3rd Wednesday of each Month)</i>	Wednesday	1	9:45 a.m.	1 st Floor Board Room
Board of Directors Regular Meeting <i>(Meets on the 1st & 3rd Wednesday of each Month)</i>	Wednesday	15	9:45 a.m.	1 st Floor Board Room
Board of Directors Climate Protection Committee <i>(Meets on the 3rd Thursday of every other Month)</i>	Thursday	16	9:30 a.m.	1 st Floor Board Room
Board of Directors Executive Committee <i>(Meets on the 3rd Monday of each Month)</i>	Monday	20	9:30 a.m.	1 st Floor Board Room
Board of Directors Stationary Source Committee <i>(Meets on the 3rd Monday of each Month)</i>	Monday	20	10:30 a.m.	1 st Floor Board Room
Board of Directors Budget & Finance Committee <i>(Meets on the 4th Wednesday of each Month)</i>	Wednesday	22	9:30 a.m.	1st Floor, Yerba Buena Room #109
Board of Directors Mobile Source Committee <i>(Meets on the 4th Thursday of each Month)</i>	Thursday	23	9:30 a.m.	1 st Floor Board Room

MM – 1/13/17 (10:56 a.m.)

G/Board/Executive Office/Moncal

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson David Hudson and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: January 4, 2017

Re: Approval of the Minutes of December 16, 2016

RECOMMENDED ACTION

Approve the attached draft minutes of the Budget and Finance Committee (Committee) meeting of December 16, 2016.

DISCUSSION

Attached for your review and approval are the draft minutes of the Committee meeting of December 16, 2016.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Marcy Hiratzka
Reviewed by: Maricela Martinez

Attachment A: Draft Minutes of the Committee Meeting of December 16, 2016

AGENDA: 3 – ATTACHMENT

Draft Minutes – Budget and Finance Committee Meeting of December 16, 2016

Bay Area Air Quality Management District
375 Beale Street, Suite 600
San Francisco, California 94105
(415) 749-5073

DRAFT MINUTES

Summary of Board of Directors
Budget and Finance Committee Meeting
Friday, December 16, 2016

1. CALL TO ORDER – ROLL CALL

Budget and Finance Committee (Committee) Chairperson David Hudson called the meeting to order at 9:31 a.m.

Present: Committee Chairperson David Hudson, Vice Chair Katie Rice; and Directors, Mark Ross, and Brad Wagenknecht.

Absent: Directors John Gioia, Carole Groom, Liz Kniss, Nate Miley, and Jan Pepper.

Also Present: Director Scott Haggerty.

2. PUBLIC COMMENT ON NON-AGENDA MATTERS:

No requests received.

3. FOURTH QUARTER PRELIMINARY FINANCIAL REPORT – FISCAL YEAR ENDING 2016 (OUT OF ORDER, ITEM 4)

Dr. Jeff McKay, Deputy Air Pollution Control Officer, introduced Stephanie Osaze, Finance Manager, who gave the staff presentation *Preliminary Fourth Quarter Financial Report – Fiscal Year Ending (FYE) 2016*, including: overview; General Fund revenues; revenue comparison of prior year versus current year; General Fund expenses; expenditure comparison of prior year versus current year; investments; fund balance and unfunded liabilities; purchasing reporting requirements; and FYE 2016 vendor payments.

NOTED PRESENT: Director Haggerty, who is not a voting member of the Committee, was noted present at 9:44 a.m.

Public Comments:

No requests received.

Committee Comments:

The Committee and staff discussed why so great an interest revenue was projected last year; how a reduction on the emission factor for diesel, which occurred after the budget was adopted, contributed to a deficiency in toxic Inventory Fees, and how this value is expected to increase following the adoption of Regulation 2, Rule 5: New Source Review of Toxic Air Contaminants; unforeseen but opportunistic expenses for the 375 Beale Street parking structure and new computer equipment; the 7.5% CalPERS return rate and the possibility of changes in the return rate for the next fiscal year; and how much the actuarial valuation has decreased since last year and how frequently this is calculated.

Committee Action:

None; receive and file.

4. FIRST QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING (FYE) 2017 (ITEM 5)

Ms. Osaze, gave the staff presentation *First Quarter Financial report – Fiscal Year Ending 2017*, including; overview; General Fund revenues; revenue comparison of prior year versus current year; General Fund expenses; expenditure comparison of prior year versus current year; investments; fund balance and unfunded liabilities; purchasing reporting requirements; and FYE 2017 vendor payments.

Public Comments:

No requests received.

Committee Comments:

None.

Committee Action:

None; receive and file.

5. 375 BEALE BEALE STREET ACQUISITION UPDATE (ITEM 6)

Dr. McKay gave the staff presentation *375 Beale Street Acquisition Update*, including: outline; 375 Beale Street; lease purchase agreement; financing; condominium; floor plans; additional purchase; and district reserves.

Public Comments:

No requests received.

Committee Comments:

The Committee and staff discussed why additional space is needed on the seventh floor; potential impacts from the Metropolitan Transportation Commission/Association of Bay Area

Governments (MTC/ABAG) merger to District space on the seventh floor; whether or not the District plans to purchase the area on the eighth floor that the District occupies; how the seventh floor is the only floor in the building with District and MTC joint ownership; whether or not the building is fully rented or occupied; whether or not the \$45 million in available District reserves may be allocated towards pension liabilities and OPEB payments; shared costs among tenants; the building's energy provider; the Bay Area Headquarters Authority's role regarding the facilitation of contracts, shared services, and joining CleanPowerSF, San Francisco's Community Choice Aggregation program; District energy consumption at 939 Ellis Street compared to 375 Beale Street; and the District's intentions of implementing solar or other sustainable measures at 375 Beale Street.

Committee Action:

None; receive and file.

6. APPROVAL OF THE MINUTES OF MARCH 23, 2016 AND APRIL 27, 2016 (ITEM 3)

Public Comments:

No requests received.

Committee Comments:

The Chair of the Board of Directors was not present to designate Director Haggerty a substitute voting member of the Committee, which meant that only four voting members were present, and a quorum of five voting members was not met.

Committee Action:

Lacking a quorum, a consensus of the Committee members present postponed the approval of the minutes of March 23, 2016 and April 27, 2016.

7. COMMITTEE MEMBER COMMENTS / OTHER BUSINESS

None.

8. TIME AND PLACE OF NEXT MEETING

Wednesday, January 22, 2017, Bay Area Air Quality Management District Office, 375 Beale Street, San Francisco, CA 94105 at 9:30 a.m.

9. ADJOURNMENT

The meeting adjourned at 10:22 a.m.

Marcy Hirtzka
Clerk of the Boards

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson David E. Hudson and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: January 10, 2017

Re: Air District Financial Audit Report for Fiscal Year Ending 2016

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 2016. 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 2016.

DISCUSSION

The District's independent auditors completed their audit of the District's financial records and activities for the year ended June 30, 2016 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 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 District's internal control over financial reporting, and results of auditor's tests of 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 2017 Budget.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Stephanie Osaze

Reviewed by: Rex Sanders

- Attachments: 1) Financial Statements with Independent Auditor's Report for the Year Ended June 30, 2016
- 2) OMB Circular A-133 and Transportation Fund for Clean Air Compliance Report for Year Ended June 30, 2016

**BAY AREA AIR QUALITY
MANAGEMENT DISTRICT**

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

**FOR THE YEAR ENDED
JUNE 30, 2016**

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS (Required Supplementary Information)	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	13
Statement of Activities.....	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Reconciliation of the Fund Balances - Total Governmental Funds with the Statement of Net Position.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	17
Reconciliation of the Net Change in Fund Balances - Total Governmental Funds to the Statement of Activities.....	18
Notes to Financial Statements	19
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	41
Schedule of Changes in the District’s Net Pension Liability and Related Ratios	42
Schedule of the District’s Contributions	43
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	44
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	45
Notes to Required Supplementary Information.....	46
SUPPLEMENTARY INFORMATION:	
Transportation Fund for Clean Air (TFCA) Program, Mobile Source Incentive Program, Carl Moyer Program, & Other Programs – Schedule of Expenditures	47

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

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



GILBERT ASSOCIATES, INC.
Sacramento, California

December 20, 2016

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

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

A. Financial Highlights

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

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

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

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

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, 2016

B. Overview of the Financial Statements, Continued

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. They provide information about the activities of the District as a whole and present a longer-term perspective of the District's finances. Government-wide financial statements include the Statement of Net Position and the Statement of Activities.

The Statement of Net Position reports all assets, deferred outflows of resources, liabilities owed by the District, and deferred inflows of resources on a full accrual basis. The difference between the assets held and deferred outflows of resources, and the liabilities owed and deferred inflows of resources, is reported as *Net Position*. The net position total is comparable to total stockholder's equity presented on the balance sheet of a private enterprise. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position as of June 30, 2016 is presented on page 13.

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

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

Fund Financial Statements

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

B. Overview of the Financial Statements, Continued

Governmental Funds

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

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

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

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 19 to 40.

Required and Other Supplementary Information

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

C. Government-Wide Financial Analysis

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

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

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

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

C. Government-Wide Financial Analysis, Continued

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

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

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

C. Government-Wide Financial Analysis, Continued

Governmental Activities

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

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

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

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

- Overall governmental revenues are \$137,230,148; an increase of \$8,767,622 from the prior year. The primary reason for the increase is due to growth in property tax valuations and permitting fees related to increased construction activities in the Bay Area. In addition, the District received a large settlement payment in the current year.
- Overall governmental expenditures are \$112,321,208; a decrease of \$9,733,873 over the prior year. The primary reason for this decrease is due to less grant program activities in the current year as compared to the prior year. TFCA/MSIF had less program distribution for projects in the current year and the Goods Movement program received less funding for projects in 2016 from the State of California.
- The cumulative effect of change in accounting principles of \$59,901,136 is related to the first year of implementation for GASB 68; which required restatement of Beginning Net Position for pension liabilities in the prior year. For further information please see pages 33-37.

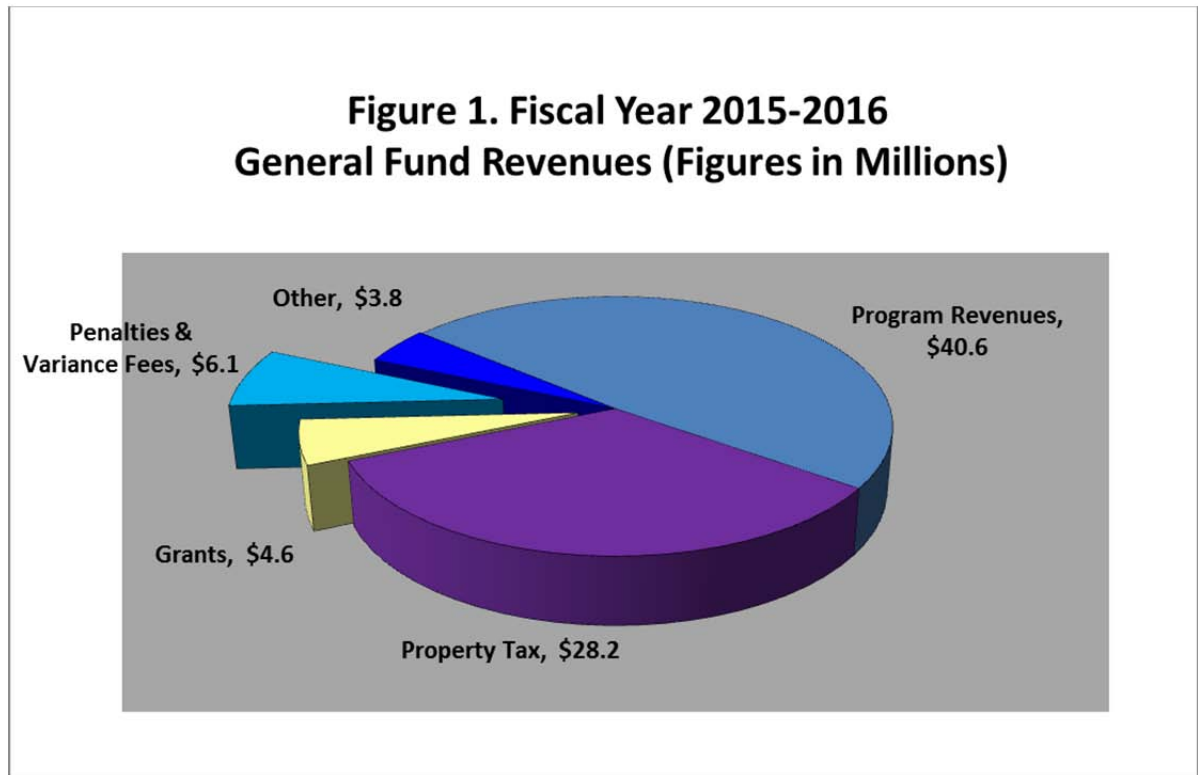
BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

D. General Fund Financial Analysis

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

**Figure 1. Fiscal Year 2015-2016
General Fund Revenues (Figures in Millions)**

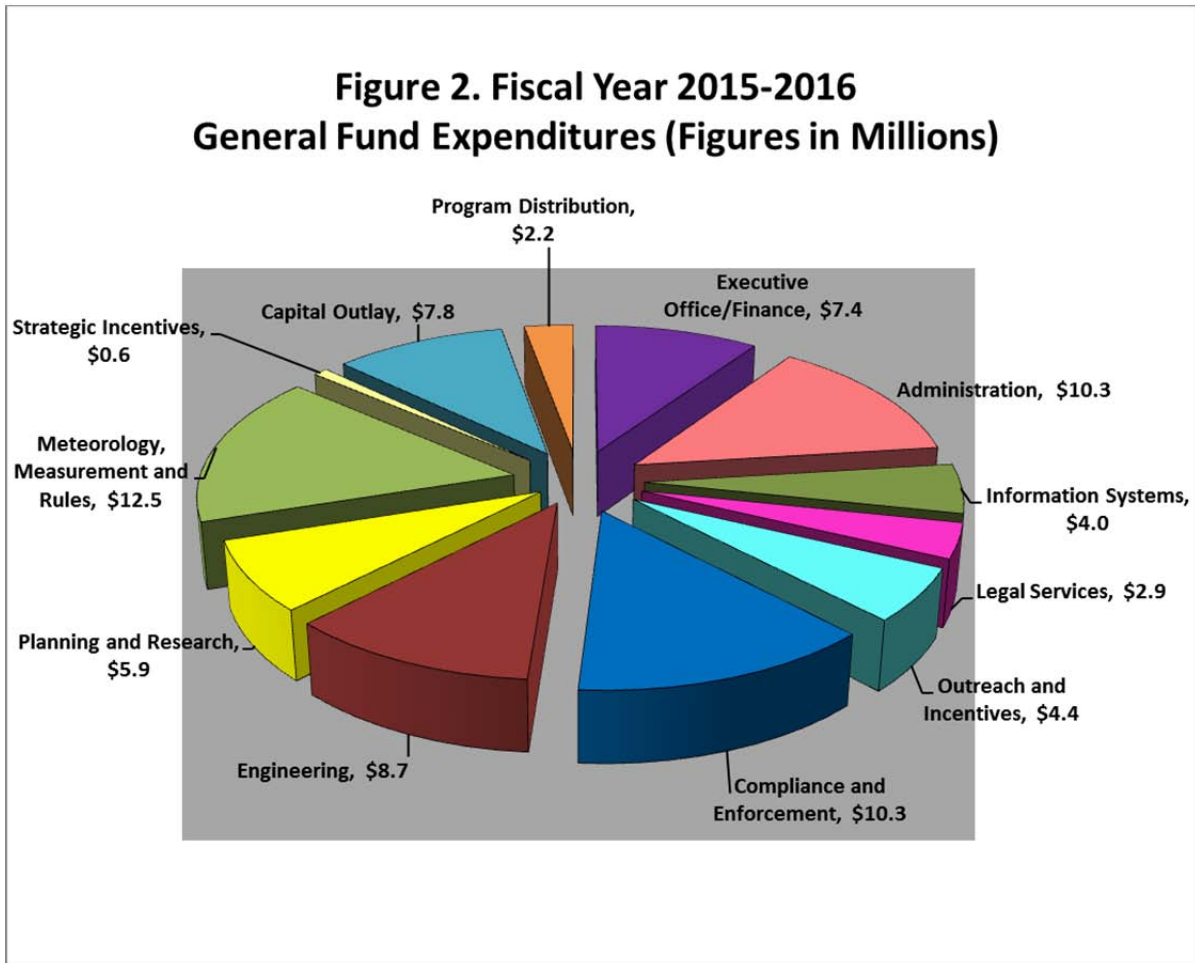


BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

D. General Fund Financial Analysis, Continued

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



BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

D. General Fund Financial Analysis, Continued

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

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

E. Capital Assets

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

F. Capital Projects Fund

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

G. Economic Factors and Next Year's Budget

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

H. Requests for Information

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2016

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

See accompanying notes to financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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

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

Total fund balances - total governmental funds	\$ 211,654,783
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	29,310,870
Other long-term assets (receivables) are not available to pay for current-period expenditures and therefore, are reported as unavailable revenue in the funds.	2,079,112
The liabilities below are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(4,181,813)
Certificates of participation	(30,000,000)
Other postemployment benefits	(4,839,742)
Capital lease obligation	(1,891,667)
Net pension liability	(54,914,429)

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources are reported as follows:

Deferred outflows of resources related to pensions	5,365,344
Deferred inflows of resources related to pensions	<u>(6,468,144)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 146,114,314</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

GOVERNMENTAL FUNDS

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

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

See accompanying notes to financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 16,831,793

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capitalized expenditures are added back to fund balance	7,759,025
Depreciation expense is deducted from fund balance	(2,204,462)
Net book value of capital asset disposals is deducted from fund balance	(10,996)

Certain receivables recognized in the government-wide statements in previous years have been deemed uncollectible and must be written off to expense. Receivables written off were for:

Permit and other miscellaneous fees	(21,118)
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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.	636,932
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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):

Change in the liability for compensated absences	124,682
Change in the liability for other postemployment benefits	969,557
Change in the liability for capital lease obligation	(1,891,667)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. The difference between accrual-basis pension costs and actual employer contributions was:

2,715,194

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 24,908,940

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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, 2016

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

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

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

C. Funds Presented

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

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

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

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

D. Basis of Accounting

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

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

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

E. Compensated Absences

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

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

F. Pensions

The District participates in the Bay Area Air Quality Management District Miscellaneous Plan (the Plan), an agent multiple-employer defined benefit pension plan maintained by the California Public Employees' Retirement System (CalPERS). For purposes of measuring the net pension liability, pension expense, and deferred outflows/inflows of resources related to pensions, information about the fiduciary net position of the Plan, and additions to/deductions from the Plan's fiduciary net position, have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Use of Management Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

H. Receivables

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

I. Capital Assets

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

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

J. Deferred Outflows/Deferred Inflows

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

K. Net Position / Fund Balance

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

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

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

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

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

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

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

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

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

L. Current Year GASB Implementation

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

M. Future GASB Statement Implementation

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Investments

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

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

Cash and cash equivalents	\$ 58,342,025
Restricted cash and cash equivalents	<u>156,130,934</u>
Total cash, cash equivalents, and investments	<u>\$ 214,472,959</u>

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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%	5%
Banker's Acceptances	180 days	15%	5%
Commercial Paper	270 days	40%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Collateralized Certificates of Deposit	1 year	15%	5%
Repurchase Agreements	92 days	100%	100%
Mutual Funds	N/A	10%	5%
Corporate Bonds, Medium-Term Notes, & Covered Bonds	5 years	30%	5%
Local Agency Investment Funds (LAIF)	N/A	Up to state limit	None

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Investments Authorized by Debt Agreements

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

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

Derivative Investments

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

Disclosures Related to Interest Rate Risk and Credit Risk

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

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

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

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

Restricted Cash, Cash Equivalents, and Investments

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

Fair Value Measurement

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

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

3. RECEIVABLES

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

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

4. INTERFUND TRANSACTIONS

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount Transferred</u>
General Fund	Special Revenue Fund	\$ 748,975

5. CAPITAL ASSETS

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

6. UNEARNED / UNAVAILABLE REVENUE

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

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

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

7. LONG-TERM LIABILITIES

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

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

<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. As of the date of this report, the acquisition of Beale Street had not yet occurred and as a result, the Certificates are still being held in an escrow account.

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

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

8. OPERATING LEASES

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

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

Air-monitoring station leases are renewable with minor escalations.

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

9. COUNTY APPORTIONMENT REVENUE

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

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

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

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

10. PENSION PLAN

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

Benefits Provided – Benefit provisions under the Plan are established by State statute and District resolution. The benefits are based on members' years of service, age, final compensation, and benefit formula. The California Public Employees' Pension Reform Act of 2013 (PEPRA) made significant changes to the benefit structure that primarily affect members first hired to perform CalPERS creditable activities on or after January 1, 2013. As a result of PEPRA, the Plan has two benefit structures: 1) CalPERS Miscellaneous Employee "2% at 55" for members first hired prior to January 1, 2013, to perform CalPERS creditable activities (Classic members), and 2) CalPERS Miscellaneous Employee "2% at 62" for members first hired on or after January 1, 2013, to perform CalPERS creditable activities (PEPRA members). The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Classic members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits, while PEPRA members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

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

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

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

⁽¹⁾ Depending on age, service and type of employment

⁽²⁾ Net of pension plan investment and administrative expenses, including inflation

⁽³⁾ The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, see the 2014 Experience Study on the CalPERS website.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

Discount Rate – The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report that can be obtained from CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the year ended June 30, 2018. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1 – 10^(a)</u>	<u>Real Return Years 11+^(b)</u>
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%
Total	<u>100%</u>		

^(a) An expected inflation of 2.5% used for this period.

^(b) An expected inflation of 3.0% used for this period.

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the District for the Plan, calculated using the discount rate for the Plan, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

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

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

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

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

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

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

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

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

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

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The schedule of funding progress included in the required supplementary information presents multiyear information regarding whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

12. RISK MANAGEMENT

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

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

13. COMMITMENTS AND CONTINGENCIES

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

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

REQUIRED SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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

Bay Area Air Quality Management District Miscellaneous Plan

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

⁽¹⁾ Net of administrative expenses.

Notes to Schedule:

Change of benefit terms – There were no changes to the benefit terms.

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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

Bay Area Air Quality Management District Miscellaneous Plan

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

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	\$ 84,524,204	\$ 45,396,383
Revenue recognition adjustments	<u>(1,131,572)</u>	<u>7,570,985</u>
Revenues – GAAP Basis	<u>\$ 83,392,639</u>	<u>\$ 52,967,368</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, 2016

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

**BAY AREA AIR QUALITY
MANAGEMENT DISTRICT**

**UNIFORM GUIDANCE AND
TRANSPORTATION FUND FOR CLEAN AIR
COMPLIANCE REPORTS**

FOR THE YEAR ENDED JUNE 30, 2016

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

	<u>PAGE</u>
Schedule of Expenditures of Federal Awards	1
Notes to the Schedule of Expenditures of Federal Awards	2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> and the Transportation Fund for Clean Air (TFCA) Program	3
Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by The Uniform Guidance	5
Schedule of Audit Findings and Questioned Costs	8
Status of Prior Year Findings and Questioned Costs	10

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Pass-Through / Grant Identifying Number	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Environmental Protection Agency:				
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	PM99T08001-2	66.034		\$ 157,794
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	PM99T08001-4	66.034		51,802
National Air Toxics Trend Study	XA00T63001-6	66.034		99,020
Total CFDA 66.034				308,616
Air Pollution Control Program Support	A00905615	66.001	\$ 31,044	75,434
Air Pollution Control Program Support	A00905616	66.001	628,689	2,155,126
Total CFDA 66.001			659,733	2,230,560
Total U.S. Environmental Protection Agency			659,733	2,539,176
U.S. Department of Homeland Security:				
Homeland Security Biowatch Program	2006-ST-91-2	97.091		1,195,800
U.S. Department of Transportation:				
Passed through California Department of Transportation:				
Highway Planning and Construction	CML-6297(003)	20.205		889,081
Highway Planning and Construction	CML-6297(006)	20.205		920,558
Total CFDA 20.205 and U.S. Department of Transportation				1,809,639
Total Expenditures of Federal Awards			\$ 659,733	\$ 5,544,615

See accompanying notes to schedule of expenditures of federal awards.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

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. INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**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, 2016, 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 20, 2016.

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 20, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

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, 2016, and have issued our report thereon dated December 20, 2016, 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 Uniform Guidance 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 3**

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 20, 2016

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP:

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 2 CFR 200.516(a)?

_____ Yes No

Identification of major programs

CFDA Number(s)

Name of Federal Program or Cluster

97.091

Homeland Security Biowatch Program

Dollar threshold used to distinguish between Type A and Type B programs

\$ 750,000

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, 2016

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, 2016**

There were no findings in the prior year.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson David Hudson and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: January 10, 2017

Re: Second Quarter Financial Report – Fiscal Year Ending 2017

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Finance staff will present an update on the Air District’s preliminary financial results for the second quarter of the 2016-17 fiscal year. The following information summarizes those results.

GENERAL FUND BUDGET: STATEMENT OF REVENUES – Comparison of Prior Quarter Actual and Current Year Budget to Actual

REVENUE TYPE	2ND QTR FY 2016	2ND QTR FY 2017	FY 2017 - % of REVENUE
County Receipts	\$10,715,794	\$9,368,886	35%
Permit Fee Receipts	\$24,271,513	\$23,338,734	70%
Title V Permit Fees	\$3,661,749	\$3,516,484	75%
Asbestos Fees	\$1,905,610	\$2,114,919	81%
Toxic Inventory Fees	\$245,472	\$220,884	56%
Penalties and Settlements	\$5,082,455	\$2,313,493	105%
Miscellaneous Revenues	\$178,177	\$117,230	59%
Interest Revenues	\$54,867	\$64,024	43%
Total Revenue	\$46,115,638	\$41,054,654	58%

GENERAL FUND: STATEMENT OF EXPENDITURES - Comparison of Prior Quarter Actual and Current Year Budget to Actual

EXPENDITURE TYPE	2ND QTR FY 2016	2ND QTR FY 2017	FY 2017 - % of EXPENDITURES
Personnel - Salaries*	\$17,560,317	\$18,031,742	48%
Personnel - Fringe Benefits*	\$10,340,740	\$10,556,796	55%
Operational Services /	\$9,097,380	\$8,415,521	39%
Capital Outlay	\$4,339,071	\$1,714,298	43%
Total Expenditures	\$41,337,509	\$38,718,357	47%

*Consolidated (includes Special Funds)

CASH INVESTMENTS IN COUNTY TREASURY – Account Balances as of 2nd Quarter

CASH/INVESTMENTS	2ND QTR FY 2016	2ND QTR FY 2017
General Fund	\$53,426,060	\$63,975,487
TFCA	\$72,924,265	\$84,300,652
MSIF	\$30,643,303	\$34,418,112
Carl Moyer	\$8,669,025	\$6,232,847
CA Goods Movement	\$8,540,921	\$8,958,517
Bike Share	\$2,230,961	\$1,061,153
Total	\$176,434,534	\$198,946,769

	6/30/2015	6/30/2016	6/30/2017
FUND BALANCES	Audited	Audited	Projected
Reserve for Capital Equipment Contingency	\$1,000,000	\$1,360,000	\$860,000
Reserve for Economic Contingency	\$10,114,309	\$15,159,959	\$15,754,025
Reserve for IT-Desktop Equipment	\$500,000	\$0	\$0
Reserve for IT- Event Response	\$500,000	\$500,000	\$500,000
Reserve for Pension & Post Employment Liability	\$1,800,000	\$1,600,000	\$800,000
Reserve for Tech- Meteorological 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	\$0	\$1,500,000	\$1,500,000
Reserve for Worker's Comp Self -Funding	\$1,000,000	\$1,000,000	\$1,000,000
Total Designated Reserves	\$15,781,409	\$21,987,059	\$21,281,125
Undesignated Fund Balance	\$15,122,475	\$13,366,286	\$13,366,286
TOTAL RESERVES	\$30,903,884	\$35,353,345	\$34,647,411
Building Proceeds	\$14,168,200	\$4,668,200	\$4,668,200
TOTAL FUND BALANCE	\$45,072,084	\$40,021,545	\$39,315,611
UNFUNDED LIABILITIES (Based on 2015 Actuarial Valuation Report)			
CalPERS Pension Retirement			\$59,242,771
Other Post- Employment Benefits			\$32,954,000
TOTAL UNFUNDED LIABILITIES			\$92,196,771

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 \$100,000 for the fiscal year. In addition, this report includes all of the vendors receiving payments in excess of \$100,000 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 \$100,000, but cumulatively exceed \$100,000.

Below is a list of vendors with cumulative payments made through the second quarter of 2016-2017 fiscal year that exceeded \$100,000 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 2016-17.

VENDOR NAME	AMOUNT PAID (July-Dec 2016)	Explanation
Alliant Insurance Services	\$434,067	Various Business Insurance Policies
Benefits Coordinators Corp.	\$430,708	Life Insurance Plan & LTD Insurance
CA Public Employee Retirement System	\$2,385,929	Health Insurance Plan
CA Public Employee Retirement System	\$6,017,400	Retirement Benefits & 457 Supplemental Plan
CAPCOA	\$643,742	Pass through EPA grants
Cubic Transportations Systems	\$205,582	Clipper Transit Subsidy
Employee Benefit Specialists	\$177,831	Medical & Dependent Care Flexible Spending Plan
Enterprise Fleet Services	\$264,658	Fleet Leasing and Maintenance services
Hartford Life Ins Co.	\$291,006	Supplemental Insurance
Preferred Benefit Insurance AD	\$333,295	Dental Insurance Plan

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 David Hudson and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: January 10, 2017

Re: Overview of Current Fiscal Year Ending 2017

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Staff will provide an overview of the current fiscal year. The overview will include a discussion of the strategies employed during the FYE 2017 budget cycle and implications for the coming FYE 2018 budget process.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None; receive and file.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Jeff McKay