



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

BOARD OF DIRECTORS  
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

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

KATIE RICE – VICE CHAIRPERSON  
CINDY CHAVEZ  
DAVE HUDSON  
KAREN MITCHOFF

WEDNESDAY  
JANUARY 24, 2018  
9:30 A.M.

1<sup>ST</sup> FLOOR BOARD ROOM  
375 BEALE STREET  
SAN FRANCISCO, CA 94105

AGENDA

1. **CALL TO ORDER - ROLL CALL – PLEDGE OF ALLEGIANCE**

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

2. **PUBLIC COMMENT PERIOD**

*(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 District headquarters, 375 Beale Street, San Francisco, CA, 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 Committee's subject matter jurisdiction. Speakers will be limited to three (3) minutes each.*

*This meeting will be webcast. To see the webcast, please visit <http://www.baaqmd.gov/The-Air-District/Board-of-Directors/Agendas-and-Minutes.aspx> at the time of the meeting.*

Staff/Phone (415) 749-

3. **APPROVAL OF THE MINUTES OF DECEMBER 7, 2017** Clerk of the Boards/5073

*The Committee will consider approving the draft minutes of the Budget and Finance Committee Meeting of December 7, 2017.*

4. **AIR DISTRICT FINANCIAL AUDIT REPORT FOR THE FISCAL YEAR ENDED 2017**

J. McKay/4629

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

*The Committee will receive an update on the Air District's Financial Audit Report for the Fiscal Year Ended in 2017.*

5. **SECOND QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING 2018**

J. McKay/4629

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

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

6. **AIR DISTRICT FINANCIAL OVERVIEW**

J. McKay/4629

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

*The Committee will receive projections for the Air District's Current Fiscal Year Ending 2018.*

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 28, 2018, Bay Area Air Quality Management District Office, 375 Beale Street, San Francisco, CA 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](mailto:mmartinez@baaqmd.gov)

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

- To submit written comments on an agenda item in advance of the meeting. Please note that all correspondence must be addressed to the “Members of the Budget and Finance Committee” and received at least 24 hours prior, excluding weekends and holidays, in order to be presented at that Committee meeting. Any correspondence received after that time will be presented to the Committee at the following meeting.
- To request, in advance of the meeting, to be placed on the list to testify on an agenda item.
- 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](http://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](mailto: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 2018**

| <u>TYPE OF MEETING</u>  | <u>DAY</u> | <u>DATE</u> | <u>TIME</u> | <u>ROOM</u>                      |
|---|------------|-------------|-------------|----------------------------------|
| <b>Board of Directors Budget &amp; Finance Committee</b> <i>(Meets on the 4<sup>th</sup> Wednesday of each Month)</i> | Wednesday  | 24          | 9:30 a.m.   | 1st Floor, Yerba Buena Room #109 |
| <b>Board of Directors Mobile Source Committee</b> <i>(Meets on the 4<sup>th</sup> Thursday of each Month)</i>         | Thursday   | 25          | 9:30 a.m.   | 1 <sup>st</sup> Floor Board Room |

**FEBRUARY 2018**

| <u>TYPE OF MEETING</u>  | <u>DAY</u> | <u>DATE</u> | <u>TIME</u> | <u>ROOM</u>                      |
|---|------------|-------------|-------------|----------------------------------|
| <b>Board of Directors Personnel Committee</b> <i>(At the Call of the Chair)</i>   | Wednesday  | 7           | 9:30 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Regular Meeting</b> <i>(Meets on the 1<sup>st</sup> &amp; 3<sup>rd</sup> Wednesday of each Month)</i><br>- CANCELLED  | Wednesday  | 7           | 9:45 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Executive Committee</b> <i>(Meets on the 3<sup>rd</sup> Monday of each Month)</i>                                     | Thursday   | 8           | 9:30 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Executive Committee</b> <i>(Meets on the 3<sup>rd</sup> Monday of each Month) - (Rescheduled to February 8, 2018)</i> | Monday     | 19          | 9:30 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Stationary Source Committee</b> <i>(Meets on the 3<sup>rd</sup> Monday of each Month)</i><br>- CANCELLED              | Monday     | 19          | 10:30 a.m.  | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Regular Mtg.</b> <i>(Meets on the 1<sup>st</sup> &amp; 3<sup>rd</sup> Wednesday of each Month)</i>                    | Wednesday  | 21          | 9:45 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Mobile Source Committee</b> <i>(Meets on the 4<sup>th</sup> Thursday of each Month)</i>                               | Thursday   | 22          | 9:30 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Budget &amp; Finance Committee</b> <i>(Meets on the 4<sup>th</sup> Wednesday of each Month)</i>                       | Wednesday  | 28          | 9:30 a.m.   | 1st Floor, Yerba Buena Room #109 |

## MARCH 2018

| <u>TYPE OF MEETING</u>  | <u>DAY</u> | <u>DATE</u> | <u>TIME</u> | <u>ROOM</u>                      |
|---|------------|-------------|-------------|----------------------------------|
| <b>Board of Directors Regular Meeting</b><br><i>(Meets on the 1<sup>st</sup> &amp; 3<sup>rd</sup> Wednesday of each Month)</i>  | Wednesday  | 7           | 9:45 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Climate Protection Committee</b><br><i>(Meets on the 3<sup>rd</sup> Thursday of every other Month)</i>  | Thursday   | 15          | 9:30 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Executive Committee &amp; Advisory Council Joint Mtg.</b><br><i>(EC Meets on the 3<sup>rd</sup> Monday of each Month) and<br/>(AC Meets At the Call of the Chair)</i> | Monday     | 19          | 9:30 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Stationary Source Committee</b> <i>(Meets on the 3<sup>rd</sup> Monday of each Month</i><br>- CANCELLED   | Monday     | 19          | 10:30 a.m.  | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Regular Mtg.</b><br><i>(Meets on the 1<sup>st</sup> &amp; 3<sup>rd</sup> Wednesday of each Month)</i>   | Wednesday  | 21          | 9:45 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Mobile Source Committee</b> <i>(Meets on the 4<sup>th</sup> Thursday of each Month)</i>   | Thursday   | 22          | 9:30 a.m.   | 1 <sup>st</sup> Floor Board Room |
| <b>Board of Directors Budget &amp; Finance Committee</b> <i>(Meets on the 4<sup>th</sup> Wednesday of each Month)</i>   | Wednesday  | 28          | 9:30 a.m.   | 1st Floor, Yerba Buena Room #109 |
| HL – 1/19/18 – 9:40 a.m.  |            |             |             | G/Board/Executive Office/Moncal  |

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

Memorandum

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

From: Jack P. Broadbent  
Executive Officer/APCO

Date: January 10, 2018

Re: Approval of the Minutes of December 7, 2017

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RECOMMENDED ACTION

Approve the attached draft minutes of the Budget and Finance Committee (Committee) meeting of December 7, 2017.

DISCUSSION

Attached for your review and approval are the draft minutes of the Committee meeting of December 7, 2017.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Marcy Hiratzka  
Reviewed by: Maricela Martinez

Attachment 3A: Draft Minutes of the Committee Meeting of December 7, 2017

# AGENDA: 3A – ATTACHMENT

Draft Minutes – Budget and Finance Committee Meeting of December 7, 2017

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  
Wednesday, December 7, 2017

### 1. CALL TO ORDER – ROLL CALL

Budget and Finance Committee (Committee) Vice Chairperson, Katie Rice, called the meeting to order at 11:22 a.m.

Present: Vice Chair Katie Rice; and Directors David J. Canepa, David Hudson, Nate Miley, Karen Mitchoff, and Mark Ross.

Absent: Committee Chairperson Carole Groom; and Directors Cindy Chavez, and John Gioia.

Also Present: Board Chairperson Liz Kniss

### 2. PUBLIC COMMENT ON NON-AGENDA MATTERS:

No requests received.

### 3. APPROVAL OF THE MINUTES OF APRIL 26, 2017

#### Public Comments:

No requests received.

#### Committee Comments:

None.

#### Committee Action:

Director Canepa made a motion, seconded by Director Ross, to **approve** the Minutes of April 26, 2017; and the motion **carried** by the following vote of the Committee:

AYES: Canepa, Hudson, Kniss, Mitchoff, Rice, and Ross.  
NOES: None.  
ABSTAIN: None.  
ABSENT: Chavez, Gioia, Groom, and Miley.

**4. FOURTH QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING (FYE) 2017**

Stephanie Osaze, Finance Manager, gave the staff presentation *Fourth Quarter Financial Report FYE 2017*, including: overview; Fourth Quarter results FYE 2017 – General Fund – revenues and expenses; revenue and expenditure comparisons of prior versus current year; cash and investments with County Treasury; fund balance and unfunded liabilities; purchasing reporting requirements; and FYE 2017 vendor payments.

Public Comments:

No requests received.

Committee Comments:

The Committee and staff discussed the District’s Reserve Policy; the amount of District reserves that are currently available; past District practices of drawing upon reserves; and the status and projections of the District’s unfunded liabilities.

Committee Action:

None; receive and file.

**5. FIRST QUARTER FINANCIAL REPORT – FYE 2018**

Ms. Osaze gave the staff presentation *First Quarter Financial Report FYE 2018*, including: overview; First Quarter results FYE 2018 – General Fund – revenues and expenses; revenue comparison of prior versus current year; 1<sup>st</sup> quarter results FYE 2018 – general fund expenses; expenditure and expenditure comparison of prior versus current year; cash and investments with County Treasury; fund balance and unfunded liabilities; purchasing reporting requirements; and FYE 2018 vendor payments.

Public Comments:

No requests received.

Committee Comments:

None.

Committee Action:

None; receive and file.



**6. REQUEST TO AMEND THE FYE 2018 BUDGET TO INCREASE STAFFING AND ACCEPT NEW ONE-TIME REVENUE RESULTING FROM ASSEMBLY BILL (AB) 617 (OUT OF ORDER, ITEM 7)**

Jack Broadbent, Executive Officer/Air Pollution Control Officer, introduced Rex Sanders, Chief Administrative Officer, who gave the staff presentation *Increase Staffing and Accept New One-Time Revenue Resulting from AB 617*, including: new and expanded programs; cost recovery; staffing increases; and recommendations.

NOTED PRESENT: Director Miley was noted present at 11:44 a.m.

Public Comments:

No requests received.

Committee Comments:

The Committee and staff discussed the District's efforts to oppose AB 617; the District's concern that the timeline requirements of AB 617 are too aggressive; the District's concern that funding necessary to meet the bill's air monitoring and air quality plan requirements would cause the District to shift resources and draw upon funds allocated for critical program areas still required by state and federal regulations; additional funding sources allocated by the State to assist with AB 617 implementation and new District staffing needs, the projected allocation timeline of those funding sources, and how the District plans to maintain funding the new positions once those funds have been exhausted; the District's vacancy rate based on currently budgeted positions (not including the twenty-two positions being considered for approval), how that vacancy rate enables the District's current-year budget to remain as is, without the need for modification, and how the District plans to incorporate that vacancy rate into the new positions being requested; how the requested hiring level will be sustained under the District's Cost Recovery Policy of 85%; the need to press the State for long-term funding to carry out the requirements of AB 617; the potential difficulties of measuring the success the objectives of the District's new Community Protection Office, and the need to include community leaders and stakeholders in the development of this Office; and the suggestion that staff be more considerate of how (frequent) District fee increases can impact facilities.

Committee Action:

Director Hudson made a motion, seconded by Director Ross, to amend the Fiscal Year Ending 2018 budget to authorize the creation of twenty-two additional full time positions; and accept approximately \$5 million in funding resulting from AB 617; and the motion **carried** by the following vote of the Committee:

AYES: Canepa, Hudson, Kniss, Miley, Mitchoff, Rice, and Ross.  
NOES: None.  
ABSTAIN: None.  
ABSENT: Chavez, Gioia, and Groom.

**7. OVERVIEW OF UPCOMING BUDGET CONSIDERATIONS (ITEM 6)**

Dr. Jeff McKay, Chief Financial Officer, gave the staff presentation *Overview of Upcoming Budget Considerations*, including: presentation goal; outline; recent financial history of District reserve funds (audited values); staff trend – filled seats; new and expanded programs; cost recovery; FYE 2018 Budget topics – cost recovery; reserve diversification; possible real estate purchases; the California Public Employees' Retirement System (CalPERS); unfunded liabilities – prefunding CalPERS retirement; CalPERS discount rate; medical retirement - Other Post-Employment Benefits (OPEB); unfunded OPEB liabilities; and FYE 2019 Budget topics - next steps.

Public Comments:

No requests received.

Committee Comments:

The Committee and staff discussed the correlations between sizes of government entities and percentages of minimum reserves; the square footage of the Richmond space that the District is currently renting; and the request that staff revisits the issue of a CalPERS funding policy target date with the full Board during the first or second calendar quarter of 2018.

Committee Action:

None; receive and file.

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

None.

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

Wednesday, January 24, 2018, Bay Area Air Quality Management District Office, 375 Beale Street, San Francisco, CA 94105 at 9:30 a.m.

**10. ADJOURNMENT**

The meeting adjourned at 12:22 p.m.

Marcy Hiratzka  
Clerk of the Boards

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

## Memorandum

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

From: Jack P. Broadbent  
Executive Officer/APCO

Date: January 10, 2018

Re: Air District Financial Audit Report for the Fiscal Year Ended 2017

**RECOMMENDED ACTION**

None; receive and file.

**BACKGROUND**

Pursuant to the Section II.2.1 of the Administrative Code, the Air District is required to have an annual independent financial audit. The Independent Auditors, Gilbert Associates, Inc. completed the Financial Statements with Independent Auditor's Report for the Year Ended 2017. 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 Year Ended 2017.

**DISCUSSION**

The Air District's independent auditors completed their audit of the Air District's financial records and activities for the year ended June 30, 2017 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. 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 2018 Budget.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Stephanie Osaze  
Reviewed by: Jeffrey McKay

Attachment 1: Financial Statements with Independent Auditor's Report for the Year Ended June 30, 2017

Attachment 2: OMB Circular A-133 and Transportation Fund for Clean Air Compliance Report for Year Ended June 30, 2017

**BAY AREA AIR QUALITY  
MANAGEMENT DISTRICT**

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

**FOR THE YEAR ENDED  
JUNE 30, 2017**

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## TABLE OF CONTENTS JUNE 30, 2017

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|   | <u>PAGE</u> |
|---|-------------|
| <b>INDEPENDENT AUDITOR'S REPORT</b> .....   | 1           |
| <b>MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)</b> .....  | 3           |
| <b>BASIC FINANCIAL STATEMENTS:</b>  |             |
| 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<br>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 -<br>Total Governmental Funds to the Statement of Activities .....  | 18          |
| Notes to Financial Statements .....   | 19          |
| <b>REQUIRED SUPPLEMENTARY INFORMATION:</b>  |             |
| Schedule of Funding Progress .....  | 42          |
| Schedule of Changes in the District's Net Pension Liability and Related Ratios .....  | 43          |
| Schedule of the District's Contributions .....  | 45          |
| Statement of Revenues, Expenditures, and Changes in Fund Balance -<br>Budget and Actual - General Fund .....  | 46          |
| Statement of Revenues, Expenditures, and Changes in Fund Balance -<br>Budget and Actual - Special Revenue Fund .....  | 47          |
| Notes to Required Supplementary Information .....   | 48          |
| <b>SUPPLEMENTARY INFORMATION:</b>   |             |
| Transportation Fund for Clean Air (TFCA) Program, Mobile Source<br>Incentive Program, Carl Moyer Program, & Other Programs - Schedule of Expenditures ..... | 49          |

# INDEPENDENT AUDITOR'S REPORT



*Relax. We got this.*

**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, 2017, 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, 2017, 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.

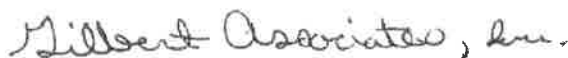
***Other Information***

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 January 2, 2018, 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**

**January 2, 2018**



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

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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, 2017. Please read it in conjunction with the accompanying basic financial statements.

### A. Financial Highlights

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. 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 and in June 2017, the Bay Area Air Quality Management District exercised its option to prepay \$10,700,000 towards its purchase of its new headquarters. The District will make monthly rental payments to its trustee, who will then apply those payments to pay down the remaining principal and interest payments on the outstanding COPs. 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 2016-17 by \$165,960,113 (net position).

The District's net position increased by \$19,845,799 from fiscal year 2015-16 due primarily to increased assets resulting from less grant related expenditures in the current year and activities 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 \$190,366,283. The entire fund balance of the Special Revenue Fund in the amount of \$126,613,509 is reserved for air quality grants and projects. The \$63,752,774 General Fund balance consists of \$19,925,940 representing the assigned fund balance, \$4,328,703 restricted, \$1,655,962 committed or nonspendable and the remaining balance of \$37,842,169 unassigned.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

Table 1 presents the General Fund detail of fund balances as of June 30, 2017, and June 30, 2016.

**Table 1. General Fund Balances as of June 30, 2017 and 2016**

| Category                                  | General Fund<br><u>June 30, 2017</u> | General Fund<br><u>June 30, 2016</u> | Increase/<br><u>(Decrease)</u> |
|---|--------------------------------------|--------------------------------------|--------------------------------|
| <b>Fund Balances:</b>                     |                                      |                                      |                                |
| <b>Nonspendable:</b>                      |                                      |                                      |                                |
| Prepaid Expenses                          | \$ 655,962                           | \$ 718,833                           | \$ (62,871)                    |
| <b>Restricted:</b>                        |                                      |                                      |                                |
| Air Quality Grants and Projects           | 1,054,899                            | 1,049,949                            | 4,950                          |
| Post-Employment Benefits                  | 3,164,259                            | 3,082,390                            | 81,869                         |
| Debt service                              | 109,545                              |                                      |                                |
| <b>Committed:</b>                         |                                      |                                      |                                |
| Self-Funded Worker's Compensation         | 1,000,000                            | 1,000,000                            |                                |
| Future acquisitions of 375 Beale Street   |                                      | 8,500,000                            | (8,500,000)                    |
| <b>Assigned:</b>                          |                                      |                                      |                                |
| Building and Facilities                   | 4,668,200                            | 5,168,200                            | (500,000)                      |
| PERS Funding and Post Employment Benefits | 800,000                              | 1,600,000                            | (800,000)                      |
| Capital Equipment                         | 711,100                              | 2,727,100                            | (2,016,000)                    |
| Air Quality Grants and Projects           | 12,246,640                           | 11,486,021                           | 760,619                        |
| Other Assigned                            | 1,500,000                            | 4,500,000                            | (3,000,000)                    |
| <b>Unassigned:</b>                        | <u>37,842,169</u>                    | <u>27,807,111</u>                    | <u>10,035,058</u>              |
| <b>Total Fund Balance</b>                 | <b><u>\$ 63,752,774</u></b>          | <b><u>\$ 67,639,604</u></b>          | <b><u>\$ (3,996,375)</u></b>   |

### B. Overview of the Financial Statements

This discussion and analysis is designed to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also includes required and other supplementary information in addition to the basic financial statements.

#### Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

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### B. Overview of the Financial Statements, Continued

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

The Statement of Net Position reports all assets, 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, 2017 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, 2017**

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### **B. Overview of the Financial Statements, Continued**

#### **Governmental Funds**

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

Balance Sheets prepared under the modified accrual basis of accounting have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. Specifically, cash and receivables that are deemed collectible within a very short period of time are reported on the balance sheet. Capital assets such as land and buildings are not reported in governmental fund financial statements. Fund liabilities include amounts that will be paid within a very short period of time after the end of the fiscal year. Long-term liabilities such as outstanding bonds are not included. The difference between a fund's total assets, deferred outflow of resources, total liabilities, and deferred inflows of resources represents the fund balance. The unassigned portion of fund balance represents the amount available to finance future activities. The District's governmental funds balance sheets can be found on page 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 41.

#### **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 42 to 48.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

### 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, 2017 compared to the fiscal year ended June 30, 2016.

**Table 2. Statement of Net Position as of June 30, 2017 and June 30, 2016**

|                                | Governmental<br>Activities<br><u>June 30, 2017</u> | Governmental<br>Activities<br><u>June 30, 2016</u> | Increase/<br>(Decrease)     |
|--------------------------------|--|--|-----------------------------|
| Current & Other Assets         | \$ 217,832,163                                     | \$ 230,128,605                                     | \$ (12,296,442)             |
| Capital Assets                 | 59,446,052   | 29,310,870   | 30,135,182                  |
| <b>Total Assets</b>            | <b><u>277,278,215</u></b>                          | <b><u>259,439,475</u></b>                          | <b><u>17,838,740</u></b>    |
| Deferred Outflows of Resources | <u>16,879,611</u>                                  | <u>5,365,344</u>                                   | <u>11,514,267</u>           |
| Current Liabilities            | 30,069,103   | 19,778,043   | 10,291,060                  |
| Noncurrent Liabilities         | <u>94,700,122</u>                                  | <u>92,444,318</u>                                  | <u>2,255,804</u>            |
| <b>Total Liabilities</b>       | <b><u>124,769,225</u></b>                          | <b><u>112,222,361</u></b>                          | <b><u>12,546,864</u></b>    |
| Deferred Inflows of Resources  | <u>3,428,488</u>                                   | <u>6,468,144</u>                                   | <u>(3,039,656)</u>          |
| Net Position                   |  |  |                             |
| Invested in Capital Assets     | 38,603,469   | 27,104,084   | 11,499,385                  |
| Restricted                     | 130,942,212  | 118,462,637  | 12,479,575                  |
| Unrestricted net position      | <u>(3,585,568)</u>                                 | <u>547,593</u>                                     | <u>(4,133,161)</u>          |
| <b>Total Net Position</b>      | <b><u>\$165,960,113</u></b>                        | <b><u>\$146,114,314</u></b>                        | <b><u>\$ 19,845,799</u></b> |

At June 30, 2017 the District's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources by \$165,960,113, an increase of \$19,845,799 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 \$19.8 million increase in net position is due to a cumulative net increase of \$29.4 million in Total Assets and Deferred Outflows offset by a cumulative increase in Total Liabilities and Deferred Outflows of \$9.5 million. Additional information can be found on page 38.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

### 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 negative balance of \$3,585,568 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, 2017 compared with the fiscal year ended June 30, 2016.

**Table 3. Statement of Activities for Fiscal Years 2016-17 and 2015-16**

|                                       | Governmental<br>Activities<br>FY 2016-17 | Governmental<br>Activities<br>FY 2015-16 | Dollar<br>Increase /<br>(Decrease) | Percentage<br>Increase /<br>(Decrease) |
|---------------------------------------|--|--|------------------------------------|--|
| <b>Revenues:</b>                      |  |  |                                    |  |
| TFCA/MSIF DMV Fees                    | \$ 39,323,535                            | \$ 37,750,566                            | \$ 1,572,969                       | 4%                                     |
| Carl Moyer                            | 5,922,319                                | 11,204,627                               | (5,282,308)                        | -47%                                   |
| California Goods Movement             | 1,114,929                                | 3,042,705                                | (1,927,776)                        | -63%                                   |
| Permit Fees                           | 38,740,730                               | 37,369,120                               | 1,371,610                          | 4%                                     |
| State Subvention                      | 1,727,036                                | 1,726,549                                | 487                                | 0%                                     |
| Federal Grants                        | 4,605,265                                | 5,544,615                                | (939,350)                          | -17%                                   |
| Penalties & Variance Fees             | 3,341,371                                | 6,133,501                                | (2,792,130)                        | -46%                                   |
| Asbestos Fees                         | 4,210,603                                | 3,869,468                                | 341,135                            | 9%                                     |
| Interest Revenue                      | 669,209                                  | 800,086                                  | (130,877)                          | -16%                                   |
| Other Revenues                        | 464,034                                  | 677,045                                  | (213,011)                          | -31%                                   |
| State Grants                          | 612,465                                  | 885,916                                  | (273,451)                          | -31%                                   |
| Special Environmental Projects        | 4,950                                    | 7,665                                    | (2,715)                            | -35%                                   |
| County Apportionments                 | <u>30,541,028</u>                        | <u>28,218,285</u>                        | <u>2,322,743</u>                   | 8%                                     |
| <b>Total Revenues</b>                 | <b><u>131,277,474</u></b>                | <b><u>137,230,148</u></b>                | <b><u>(5,952,674)</u></b>          | <b>-4%</b>                             |
| <b>Expenses:</b>                      |  |  |                                    |  |
| General Government                    | 77,633,143                               | 67,863,055                               | 9,770,088                          | 14%                                    |
| TFCA/MSIF, CMP, & Other               | 32,366,282                               | 40,907,327                               | (8,541,045)                        | -21%                                   |
| California Goods Movement             | 1,381,955                                | 3,498,005                                | (2,116,050)                        | -60%                                   |
| Debt Service                          | 50,295                                   | 52,821                                   | (2,526)                            | -5%                                    |
| <b>Total Expenses</b>                 | <b><u>111,431,675</u></b>                | <b><u>112,321,208</u></b>                | <b><u>(889,533)</u></b>            | <b>-1%</b>                             |
| <b>Change in Net Position</b>         | <b>19,845,799</b>                        | <b>24,908,940</b>                        | <b>(5,063,141)</b>                 | <b>-20%</b>                            |
| <b>Net Position-beginning of year</b> | <b><u>146,114,314</u></b>                | <b><u>121,205,374</u></b>                | <b><u>24,908,940</u></b>           | <b>21%</b>                             |
| <b>Net Position-ending of year</b>    | <b><u>\$ 165,960,113</u></b>             | <b><u>\$ 146,114,314</u></b>             | <b><u>\$ 19,845,799</u></b>        | <b>14%</b>                             |

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

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

#### Governmental Activities

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

The Statement of Activities presents information showing how the District's net position changed during the fiscal year 2016-2017. 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, 2017, the District's governmental activities reported ending net position of \$165,960,113, an increase of \$19,845,799 in comparison to the prior year. The primary reason is due to increased restricted cash as a result of less grant related expenditures in the current year and increase in pension liability due to GASB 68 pension accounting.

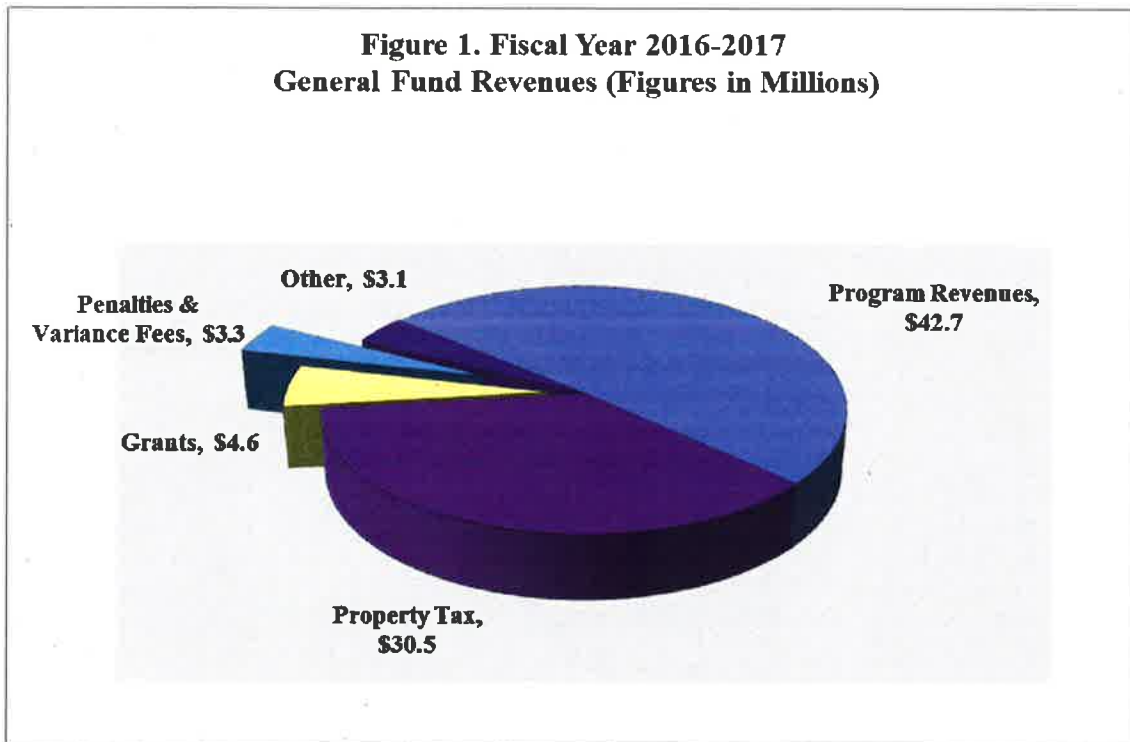
- Overall governmental revenues are \$131,277,474; a decrease of \$5,952,674 from the prior year. The primary reason for the decrease is due to less grant program activities and reduction in penalties and settlements in the current year; offset by increases in county apportionment and permitting fees related to higher assessed valuations and construction activities in the Bay Area.
- Overall governmental expenditures are \$111,431,675; a decrease of \$889,533 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. Carl Moyer and Goods Movement had less program distribution for projects in the current year. This decrease is offset by increased expenditures related to down payment towards purchase of District's new headquarters at 375 Beale Street.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

### 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 2016-2017. The General Fund received total revenue of \$84,257,486 in fiscal year 2016-17, an increase of \$864,854 over fiscal year 2015-16. This increase is mainly comprised of increased revenues of \$4.6 million in property tax, asbestos, and permits fees resulting in an average rate increase of approximately 6.4% over the prior year, as well as, increased economic activities. This increase is offset by \$3.7 million decrease in one-time revenues related to penalties and one-time grant revenues. Program Revenues include: Permit, AB2588, Title V, and Asbestos fees. Program revenues are the largest General Fund revenue source in fiscal 2016-17 (\$42.7 million), followed by Property Tax (\$30.5 million), Grants (\$4.6 million), Penalties (\$3.3 million), and Other revenues (\$3.1 million).



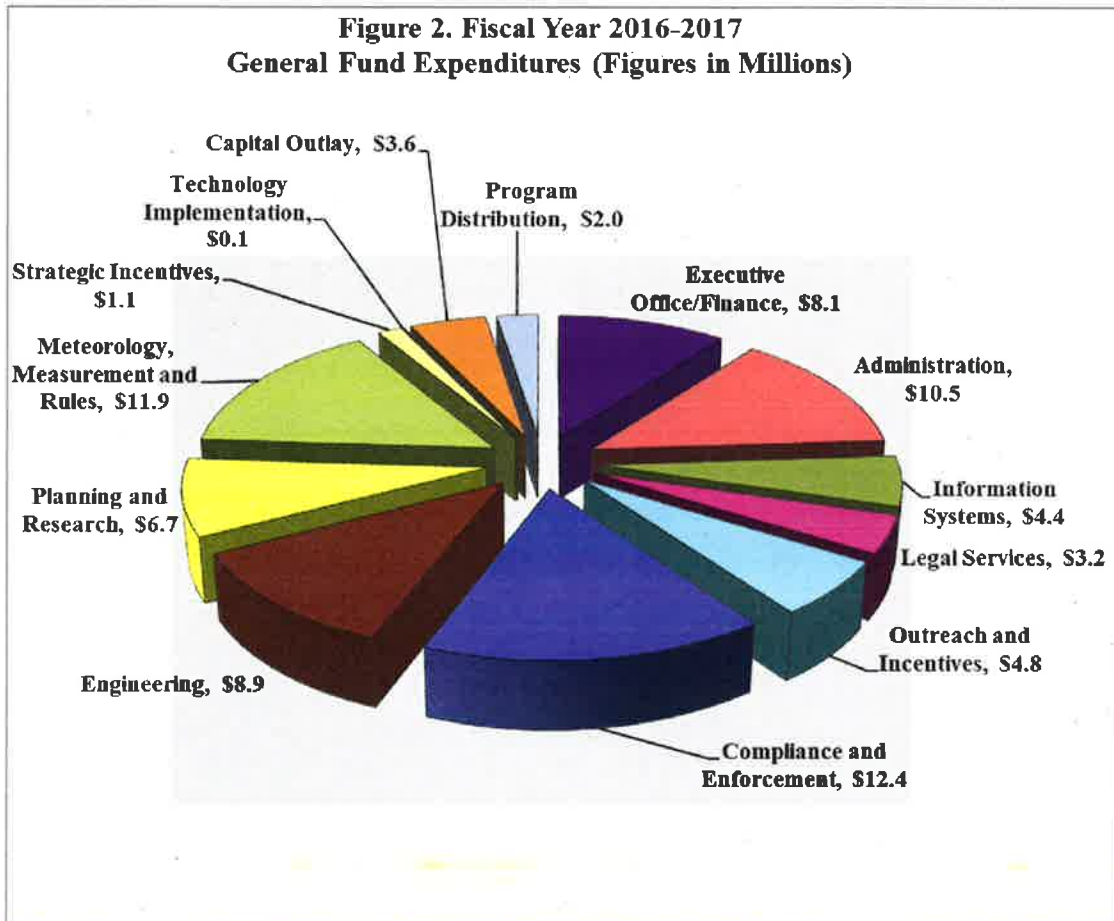


# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

### D. General Fund Financial Analysis, Continued

Figure 2 below provides a graph of General Fund operating expenditures (net of other financing uses) for fiscal year 2016-17. General Fund operating expenditures totaled \$88,686,084 which is an increase of \$11,333,845 over fiscal year 2015-16. This increase resulted from a combined increase of down payment towards the purchase of District's new headquarters; related share services; and personnel & benefit cost associated with increase in staffing levels. General Fund expenditures represent the District's general government operating costs categorized into the following operating divisions: Compliance and Enforcement (\$12.4 million), Engineering (\$8.9 million), Administration (\$10.5 million), Information Systems (\$4.4 million), Meteorology, Measurements and Rules (\$11.9 million), Executive (\$8.1 million), Planning & Research (\$6.7 million), Outreach & Incentives (\$4.8 million), Strategic Incentives (\$1.1 million) and Legal Services (\$3.2 million). Capital Outlay (3.6 million), Debt Service (\$11.1 million) and Program Distribution (\$2.0 million) are not operating divisions, but rather categories capturing expenditures related to capital assets, COPs financing and special projects, respectively. General Fund operating expenditures exceeded operating revenues creating an operating deficit of \$4.4 million in fiscal year 2016-17. This operating deficit was caused by the down payment on the new District headquarters which was offset by a transfer from fund balance.



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

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### D. General Fund Financial Analysis, Continued

The General Fund is the operating fund of the District and at the end of the fiscal year, the total fund balance of the General Fund was \$63.8 million. The assigned fund balance was \$19.9 million, committed \$1 million, restricted \$4.3 million, non-spendable \$0.7 million, and the remaining \$37.8 million is unassigned. The unassigned fund balance represents 41.8% of the total General Fund expenditures, while the total fund balance represents 71.8% of the total fund expenditures. The District has available funds for unanticipated emergencies.

The FY 2016-17 adopted budget as compared to the actual expenditures and revenues reflects an increase in appropriations of \$11.2 million and an increase in revenues of \$7.5 million. The changes to the budget appropriations were the result of Governing Board actions, and carryover of unspent funds from FY 2015-16. The increase in actual revenues resulted increased economic activities related to property tax receipts, settlement/penalties and asbestos fees. The increase in actual expenditures resulted in the down payment towards purchase of District's new headquarters.

### E. Capital Assets

Capital assets include land, buildings, laboratory equipment, air monitoring stations, computers, office furniture and District fleet vehicles. As of June 30, 2017, the District's investment in capital assets was \$59.4 million net of accumulated depreciation. This was an increase of \$30.1 million from the prior year and mainly relates to purchase of fully furnished office space at 375 Beale (headquarters) and equipment at other satellite office locations.

### F. Capital Projects Fund

The Capital Projects Fund was established to account for financial resources that are specifically related to the acquisition of the District's new office. In the current fiscal year, the District exercised its option to acquire its new headquarters at 375 Beale, no longer requiring reporting as a capital project fund, but rather recognizing the acquisition as an asset of the District. 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 36% of its General Fund revenue from property taxes levied in nine Bay Area counties and 51% 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 2017-18. 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, 2017

|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <b>ASSETS</b>   |                                    |
| Cash and cash equivalents                                 | \$ 55,336,304                      |
| Restricted cash and cash equivalents                      | 146,022,187                        |
| Receivables   | 13,344,942                         |
| Due from other governments                                | 2,326,797                          |
| Prepays, deposits, and other current assets               | <u>801,933</u>                     |
| Capital assets:   |                                    |
| Non-depreciable   | 3,727,568                          |
| Depreciable, net  | <u>55,718,484</u>                  |
| Total capital assets                                      | <u>59,446,052</u>                  |
| Total assets  | <u>277,278,215</u>                 |
| <b>DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS</b> |                                    |
|   | <u>16,879,611</u>                  |
| <b>LIABILITIES</b>  |                                    |
| Accounts payable  | 7,450,857                          |
| Accrued liabilities                                       | 1,174,795                          |
| Other current liabilities                                 | 408,155                            |
| Unearned revenue  | 16,086,212                         |
| Long-term liabilities:                                    |                                    |
| Due within one year:                                      |                                    |
| Compensated absences, current                             | 3,400,000                          |
| COP liability   | 1,200,000                          |
| Capital lease obligation, current                         | 349,084                            |
| Due in more than one year:                                |                                    |
| Compensated absences, noncurrent                          | 1,354,707                          |
| Certificates of participation                             | 18,100,000                         |
| Other postemployment benefits                             | 4,121,829                          |
| Capital lease obligation, noncurrent                      | 1,193,499                          |
| Net pension liability                                     | <u>69,930,087</u>                  |
| Total liabilities   | <u>124,769,225</u>                 |
| <b>DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS</b>  |                                    |
|   | <u>3,428,488</u>                   |
| <b>NET POSITION</b>                                       |                                    |
| Net investment in capital assets                          | 38,603,469                         |
| Restricted for air quality grants and projects            | 127,668,408                        |
| Restricted for post-employment benefits                   | 3,164,259                          |
| Restricted for debt service                               | 109,545                            |
| Unrestricted net position                                 | <u>(3,585,568)</u>                 |
| Total net position  | <u>\$ 165,960,113</u>              |

See accompanying notes to financial statements.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

| Functions/Programs   | Expenses              | Program Revenues        |  | Net (Expense)<br>Revenue and<br>Change in<br>Net Position |
|--|-----------------------|-------------------------|--|---|
|  |                       | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Governmental<br>Activities                                |
| Governmental activities:                                   |                       |                         |  |   |
| Primary government   | \$ 77,633,143         | \$ 46,297,658           | \$ 6,812,836                             | \$ (24,522,649)   |
| California Goods Movement program                          | 1,381,955             |                         | 1,042,148                                | (339,807)   |
| Interest   | 50,295                |                         |  | (50,295)  |
| TFCA/MSIF, CMP, & other programs:                          |                       |                         |  |   |
| TFCA/MSIF & other program<br>distribution                  | 26,443,963            |                         | 39,528,246                               | 13,084,283  |
| Carl Moyer Program   | 5,922,319             |                         | 5,922,319                                |   |
| Total TFCA/MSIF, CMP, &<br>other programs                  | <u>32,366,282</u>     |                         | <u>45,450,565</u>                        | <u>13,084,283</u>   |
| Total governmental activities                              | <u>\$ 111,431,675</u> | <u>\$ 46,297,658</u>    | <u>\$ 53,305,549</u>                     | <u>(11,828,468)</u>                                       |
| General revenues:  |                       |                         |  |   |
| County apportionment                                       |                       |                         |  | 30,541,028  |
| Investment income not restricted for a<br>specific program |                       |                         |  | 669,209   |
| Donated Assets   |                       |                         |  | 196,226   |
| Other  |                       |                         |  | <u>267,804</u>  |
| Total general revenues                                     |                       |                         |  | <u>31,674,267</u>   |
| Change in net position                                     |                       |                         |  | 19,845,799  |
| Net position-beginning of year                             |                       |                         |  | <u>146,114,314</u>  |
| Net position-end of year                                   |                       |                         |  | <u>\$ 165,960,113</u>                                     |

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2017

|  | <u>General Fund</u>  | <u>Special<br/>Revenue Fund</u> | <u>Capital<br/>Projects Fund</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|----------------------|---------------------------------|----------------------------------|---|
| <b>ASSETS</b>  |                      |                                 |                                  |   |
| Cash and cash equivalents  | \$ 55,336,304        |                                 |                                  | \$ 55,336,304                           |
| Restricted cash and cash equivalents                                   | 3,273,804            | \$ 142,748,383                  |                                  | 146,022,187                             |
| Receivables  | 5,879,680            | 7,465,262                       |                                  | 13,344,942                              |
| Due from other governments   | 2,326,797            |                                 |                                  | 2,326,797                               |
| Due from other funds   | 3,454,137            |                                 |                                  | 3,454,137                               |
| Prepays, deposits, and other assets                                    | 801,933              |                                 |                                  | 801,933                                 |
| Total assets   | <u>\$ 71,072,655</u> | <u>\$ 150,213,645</u>           | <u>\$</u>                        | <u>\$ 221,286,300</u>                   |
| <b>LIABILITIES</b>   |                      |                                 |                                  |   |
| Accounts payable   | \$ 2,462,442         | \$ 4,988,415                    |                                  | \$ 7,450,857                            |
| Accrued liabilities  | 1,189,603            |                                 |                                  | 1,189,603                               |
| Due to other funds   |                      | 3,454,137                       |                                  | 3,454,137                               |
| Other liabilities  | 408,155              |                                 |                                  | 408,155                                 |
| Unearned revenue   | 928,628              | 15,157,584                      |                                  | 16,086,212                              |
| Total liabilities  | <u>4,988,828</u>     | <u>23,600,136</u>               | <u></u>                          | <u>28,588,964</u>                       |
| <b>DEFERRED INFLOWS OF<br/>RESOURCES</b>                               |                      |                                 |                                  |   |
| Unavailable revenue  | <u>2,331,053</u>     |                                 |                                  | <u>2,331,053</u>                        |
| <b>FUND BALANCES</b>   |                      |                                 |                                  |   |
| Nonspendable:  |                      |                                 |                                  |   |
| Prepaid items  | 655,962              |                                 |                                  | 655,962                                 |
| Restricted:  |                      |                                 |                                  |   |
| Air quality grants and projects  | 1,054,899            | 126,613,509                     |                                  | 127,668,408                             |
| Postemployment benefits  | 3,164,259            |                                 |                                  | 3,164,259                               |
| Debt Service   | 109,545              |                                 |                                  | 109,545                                 |
| Committed:   |                      |                                 |                                  |   |
| Self-funded workers' compensation                                      | 1,000,000            |                                 |                                  | 1,000,000                               |
| Assigned:  |                      |                                 |                                  |   |
| Pension and Postemployment   | 800,000              |                                 |                                  | 800,000                                 |
| Building and facilities  | 4,668,200            |                                 |                                  | 4,668,200                               |
| Capital equipment  | 711,100              |                                 |                                  | 711,100                                 |
| Air quality grants and projects  | 12,246,640           |                                 |                                  | 12,246,640                              |
| GHG Abatement Technology Study   | 1,500,000            |                                 |                                  | 1,500,000                               |
| Unassigned   | 37,842,169           |                                 |                                  | 37,842,169                              |
| Total fund balances  | <u>63,752,774</u>    | <u>126,613,509</u>              | <u></u>                          | <u>190,366,283</u>                      |
| Total liabilities, deferred inflows<br>of resources, and fund balances | <u>\$ 71,072,655</u> | <u>\$ 150,213,645</u>           | <u>\$</u>                        | <u>\$ 221,286,300</u>                   |

See accompanying notes to financial statements.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## RECONCILIATION OF THE FUND BALANCES - TOTAL GOVERNMENTAL FUNDS WITH THE STATEMENT OF NET POSITION JUNE 30, 2017

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

|  |                |
|--|----------------|
| Total fund balances - total governmental funds | \$ 190,366,283 |
|--|----------------|

|  |            |
|--|------------|
| Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds. | 59,446,052 |
|--|------------|

|  |           |
|--|-----------|
| Other long-term assets (receivables) are not available to pay for current-period expenditures and therefore, are reported as unavailable revenue in the funds. | 2,331,053 |
|--|-----------|

The liabilities below are not due and payable in the current period and therefore are not reported in the funds:

|                               |              |
|-------------------------------|--------------|
| Compensated absences          | (4,739,899)  |
| Certificates of participation | (19,300,000) |
| Other postemployment benefits | (4,121,829)  |
| Capital lease obligation      | (1,542,583)  |
| Net pension liability         | (69,930,087) |

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 | 16,879,611         |
| Deferred inflows of resources related to pensions  | <u>(3,428,488)</u> |

|  |                              |
|--|------------------------------|
| <b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b> | <b><u>\$ 165,960,113</u></b> |
|--|------------------------------|

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## GOVERNMENTAL FUNDS

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2017

|  | General<br>Fund      | Special Revenue<br>Fund | Capital Projects<br>Fund | Total<br>Governmental<br>Funds |
|--|----------------------|-------------------------|--------------------------|--------------------------------|
| <b>REVENUES</b>  |                      |                         |                          |                                |
| TFCAs / MSIF DMV fees                                    |                      | \$ 39,323.535           |                          | \$ 39,323,535                  |
| Permit fees  | \$ 38,482,466        |                         |                          | 38,482,466                     |
| County apportionment                                     | 30,541,028           |                         |                          | 30,541,028                     |
| California Goods Movement revenue                        |                      | 1,114,929               |                          | 1,114,929                      |
| Carl Moyer Program                                       |                      | 5,922,319               |                          | 5,922,319                      |
| Federal grants   | 4,596,397            | 8,868                   |                          | 4,605,265                      |
| Penalties and variance fees                              | 3,341,371            |                         |                          | 3,341,371                      |
| Asbestos fees  | 4,210,603            |                         |                          | 4,210,603                      |
| State subvention   | 1,727,036            |                         |                          | 1,727,036                      |
| State grants   | 416,622              | 195,843                 |                          | 612,465                        |
| Other revenues   | 267,804              |                         |                          | 267,804                        |
| Interest and investment gain (loss)                      | 669,209              |                         |                          | 669,209                        |
| Special environmental projects                           | 4,950                |                         |                          | 4,950                          |
| Total revenues   | 84,257,486           | 46,565,494              |                          | 130,822,980                    |
| <b>EXPENDITURES</b>                                      |                      |                         |                          |                                |
| General government:                                      |                      |                         |                          |                                |
| Program distribution                                     | 2,002,846            |                         |                          | 2,002,846                      |
| Executive office and finance                             | 8,093,683            |                         |                          | 8,093,683                      |
| Administration   | 10,478,822           |                         |                          | 10,478,822                     |
| Information systems                                      | 4,355,571            |                         |                          | 4,355,571                      |
| Legal services   | 3,236,436            |                         |                          | 3,236,436                      |
| Outreach and incentives                                  | 4,758,577            |                         |                          | 4,758,577                      |
| Compliance and enforcement                               | 12,439,435           |                         |                          | 12,439,435                     |
| Engineering  | 8,877,373            |                         |                          | 8,877,373                      |
| Planning and research                                    | 6,679,171            |                         |                          | 6,679,171                      |
| Meteorology, measurement and rules                       | 11,880,260           |                         |                          | 11,880,260                     |
| Strategic incentives division                            | 1,106,412            |                         |                          | 1,106,412                      |
| Technology Implementation                                | 51,629               |                         |                          | 51,629                         |
| TFCAs/MSIF, Carl Moyer, & other programs:                |                      |                         |                          |                                |
| Program distribution                                     |                      | 23,832,152              |                          | 23,832,152                     |
| Intermittent control                                     |                      | 1,349,091               |                          | 1,349,091                      |
| TFCAs administration                                     |                      | 890,927                 |                          | 890,927                        |
| Vehicle buy-back   |                      | 5,196,874               |                          | 5,196,874                      |
| Mobile source incentive                                  |                      | 629,874                 |                          | 629,874                        |
| CarSharing incentive                                     |                      | 15,771                  |                          | 15,771                         |
| Regional electric vehicle deployment                     |                      | 119,144                 |                          | 119,144                        |
| Enhanced mobile source inspection                        |                      | 332,183                 |                          | 332,183                        |
| California Goods Movement Program & other programs:      |                      |                         |                          |                                |
| Grant administration                                     |                      | 502,123                 |                          | 502,123                        |
| Truck Program/LESBP                                      |                      | 879,753                 |                          | 879,753                        |
| Debt Service:  |                      |                         |                          |                                |
| Principal  | 11,049,084           |                         |                          | 11,049,084                     |
| Interest   | 50,295               |                         |                          | 50,295                         |
| Capital outlay   | 3,626,490            |                         | \$ 29,677,504            | 33,303,994                     |
| Total expenditures                                       | 88,686,084           | 33,747,892              | 29,677,504               | 152,111,480                    |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> | <b>(4,428,598)</b>   | <b>12,817,602</b>       | <b>(29,677,504)</b>      | <b>(21,288,500)</b>            |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                      |                         |                          |                                |
| Transfers in   | 541,768              |                         |                          | 541,768                        |
| Transfers (out)  |                      | (534,391)               | (7,377)                  | (541,768)                      |
| Total other financing source (uses)                      | 541,768              | (534,391)               | (7,377)                  |                                |
| <b>NET CHANGE IN FUND BALANCES</b>                       | (3,886,830)          | 12,283,211              | (29,684,881)             | (21,288,500)                   |
| <b>BEGINNING FUND BALANCES</b>                           | 67,639,604           | 114,330,298             | 29,684,881               | 211,654,783                    |
| <b>ENDING FUND BALANCES</b>                              | <b>\$ 63,752,774</b> | <b>\$ 126,613,509</b>   | <b>\$</b>                | <b>\$ 190,366,283</b>          |

See accompanying notes to financial statements.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## RECONCILIATION OF THE NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**      \$ (21,288,500)

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                 | 33,334,245  |
| Depreciation expense is deducted from fund balance                      | (3,376,223) |
| Net book value of capital asset disposals is deducted from fund balance | (19,068)    |
| Donated assets are added back to fund balance                           | 196,226     |

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 | (6,327) |
|-------------------------------------|---------|

|   |         |
|---|---------|
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. | 258,268 |
|---|---------|

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          | (558,086)  |
| Change in the liability for other postemployment benefits | 717,913    |
| Change in the liability for capital lease obligation      | 349,084    |
| Change in the liability for Certificates of participation | 10,700,000 |

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:

(461,733)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES**

\$ 19,845,799



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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### 1. REPORTING ENTITY AND SIGNIFIGANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Bay Area Air Quality Management District (District) was created by the California legislature in 1955. The District's structure, operating procedures and authority are established by Division 26 of the California Health and Safety Code.

The District's jurisdiction is limited principally to policing non-vehicular sources of air pollution within the Bay Area, primarily industry pollution and burning. Any company wishing to build or modify a facility in the Bay Area must first obtain a permit from the District to ensure that the facility complies with all applicable rules.

The District also acts as the program administrator for Transportation Fund for Clean Air (TFCA) funds and Mobile Source Incentive funds (MSIF) derived from Assembly Bill 434 and Assembly Bill 923, respectively. TFCA and MSIF funding comes from a \$4 and \$2 surcharge, respectively, on motor vehicles registered within the District's boundaries. TFCA funding may only be used to fund eligible projects that reduce motor vehicle emissions and support the implementation of the transportation and mobile source control measures in the 1994 Clean Air Plan. All projects must fall within the categories listed in State Law (Health and Safety Code Section 44241).

The Health and Safety Code requires the District to pass-through no less than 40% (forty percent) of the TFCA revenues raised within a particular county to that county's eligible, designated Program Manager. The remaining 60% (sixty percent) is for Regional Fund grants and is being allocated to projects on a competitive basis. Projects are evaluated using the District's Board adopted evaluation and scoring criteria. The District may receive reimbursement from TFCA funds, not to exceed 6.25% (six and a quarter 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 24 (twenty-four) 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, 2017

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

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

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

### C. Funds Presented

The District's major governmental funds are required to be identified and presented separately in the fund financial statements. 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, 2017

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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, 2017

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### 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, 2017, management deemed \$6,327 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, 2017

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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, 2017

### L. 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, 2017, are classified in the accompanying financial statements as follows:

|   |                       |
|---|-----------------------|
| Cash and cash equivalents                     | \$ 55,336,304         |
| Restricted cash and cash equivalents          | <u>146,022,187</u>    |
| Total cash, cash equivalents, and investments | <u>\$ 201,358,491</u> |

Cash, cash equivalents, and investments as of June 30, 2017, consist of the following:

|   |                       |
|---|-----------------------|
| Cash and investments in San Mateo                         |                       |
| Pooled Fund Investment Program                            | \$ 198,084,687        |
| Cash, cash equivalents, and investments with fiscal agent | <u>3,273,804</u>      |
| Total cash and cash equivalents                           | <u>\$ 201,358,491</u> |

### 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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, &<br>Covered Bonds | 5 years                 | 30%                                    | 5%                                      |
| Local Agency Investment Funds (LAIF)                   | N/A                     | Up to state limit                      | None                                    |

### Investments Authorized by Debt Agreements

The District's cash, cash equivalents, and investments with fiscal agent in the General Fund in the amount of \$109,259 represent funds which are restricted for specific purposes under terms of the debt agreement at June 30, 2017.

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, 2017.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### 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, 2017:

|   | <u>Ratings</u> |                | <u>Maturities</u> | <u>Fair Value</u>     |
|---|----------------|----------------|-------------------|-----------------------|
|   | <u>Moody's</u> | <u>S&amp;P</u> |                   |                       |
| AIG fixed annuity                                       | Not Rated      | Not Rated      | Current           | \$ 3,164,259          |
| Dreyfus Treasury Securities<br>Investments in San Mateo | Aaa-mf         | AAAm           | Current           | 109,545               |
| Pooled Fund Investment Program                          | Aa1/P-1        | AA/A-1         | 1.01 years        | <u>198,084,687</u>    |
| Total cash, cash equivalents, and investments           |                |                |                   | <u>\$ 201,358,491</u> |

### Restricted Cash, Cash Equivalents, and Investments

The District's restricted cash, cash equivalents, and investments are \$146,022,187 at June 30, 2017. Included in this restricted balance is \$142,748,383 for air quality grants and projects, \$109,545 for debt service, and \$3,164,259 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.



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 Dreyfus Treasury Securities are classified as Level 2 because they are observable but do not have quoted prices in 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, 2017, the District had the following accounts receivable:

|                                  |              |                      |
|----------------------------------|--------------|----------------------|
| <b>General Fund:</b>             |              |                      |
| Permit and other fees            | \$ 4,083,722 |                      |
| County apportionments            | 1,549,130    |                      |
| Interest                         | 178,620      |                      |
| Other                            | 68,208       |                      |
| Total General Fund               |              | \$ 5,879,680         |
| <br><b>Special Revenue Fund:</b> |              |                      |
| TFCA DMV fees                    | 4,812,278    |                      |
| MSIF DMV fees                    | 2,279,328    |                      |
| Interest                         | 373,656      |                      |
| Total Special Revenue Fund       |              | 7,465,262            |
| <b>Total Accounts Receivable</b> |              | <b>\$ 13,344,942</b> |

### 4. INTERFUND TRANSACTIONS

Current interfund balances arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly after the end of the fiscal year when revenues are received. At June 30, 2017, the General Fund was owed \$3,454,137 by the Special Revenue Fund.

With Board approval, resources are transferred from one fund to another. The purpose of the majority of transfers is to move approved administrative revenue charged to restricted programs in the Special Revenue Fund to the General Fund. Interfund transfers for the year ended June 30, 2017 were as follows:

| <u>Fund Receiving Transfer</u> | <u>Fund Making Transfer</u> | <u>Amount Transferred</u> |
|--------------------------------|-----------------------------|---------------------------|
| General Fund                   | Special Revenue Fund        | \$ 541,768                |

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### 5. CAPITAL ASSETS

The District's capital assets were comprised of the following at June 30, 2017:

|                                 | <u>Balance at<br/>7/1/2016</u> | <u>Additions</u>     | <u>Deletions</u>   | <u>Transfers</u>   | <u>Balance at<br/>6/30/2017</u> |
|---------------------------------|--------------------------------|----------------------|--------------------|--------------------|---------------------------------|
| Non-depreciable assets:         |                                |                      |                    |                    |                                 |
| Land                            | \$ 1,018,521                   |                      |                    |                    | \$ 1,018,521                    |
| Construction in progress        | 2,762,069                      | \$ 2,279,494         |                    | \$(2,332,516)      | 2,709,047                       |
| Total non-depreciable assets    | <u>3,780,590</u>               | <u>2,279,494</u>     |                    | <u>(2,332,316)</u> | <u>3,727,568</u>                |
| Depreciable assets:             |                                |                      |                    |                    |                                 |
| Building and grounds            | 1,756,064                      | 29,707,755           |                    |                    | 31,463,819                      |
| Leasehold improvements          | 2,908,329                      |                      |                    |                    | 2,908,329                       |
| Computers and network equipment | 9,366,038                      | 325,000              |                    |                    | 9,691,038                       |
| Production system               | 16,582,143                     |                      |                    | 2,332,516          | 18,914,659                      |
| Motorized equipment             | 569,543                        | 244,763              | \$ (381,352)       |                    | 432,954                         |
| Lab and monitoring equipment    | 8,970,686                      | 949,896              |                    |                    | 9,920,582                       |
| Furniture and other equipment   | 3,675,725                      | 23,565               |                    |                    | 3,699,290                       |
| Total depreciable assets        | <u>43,828,528</u>              | <u>31,250,979</u>    | <u>(381,352)</u>   | <u>2,332,516</u>   | <u>77,030,671</u>               |
| Accumulated depreciation:       |                                |                      |                    |                    |                                 |
| Building and grounds            | 194,904                        | 221,704              |                    |                    | 416,608                         |
| Leasehold improvements          | 2,705,205                      | 12,321               |                    |                    | 2,717,526                       |
| Computers and network equipment | 4,148,315                      | 988,958              |                    |                    | 5,137,273                       |
| Production system               | 1,015,182                      | 1,105,477            |                    |                    | 2,120,659                       |
| Motorized equipment             | 478,664                        | 36,122               | (362,284)          |                    | 152,502                         |
| Lab and monitoring equipment    | 7,122,024                      | 615,831              |                    |                    | 7,737,855                       |
| Furniture and other equipment   | 2,633,954                      | 395,810              |                    |                    | 3,029,764                       |
| Total accumulated depreciation  | <u>18,298,248</u>              | <u>3,376,223</u>     | <u>(362,284)</u>   |                    | <u>21,312,187</u>               |
| Total depreciable assets, net   | <u>25,530,280</u>              | <u>27,874,250</u>    | <u>(19,068)</u>    | <u>2,332,516</u>   | <u>55,718,484</u>               |
| Total capital assets, net       | <u>\$ 29,310,870</u>           | <u>\$ 30,154,250</u> | <u>\$ (19,068)</u> | <u>\$</u>          | <u>\$ 59,446,052</u>            |

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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Donated capital assets are recorded at their estimated fair value at the date of donation.

Depreciation expense by function for capital assets for the year ended June 30, 2017, is as follows:

|                                    |    |                  |
|------------------------------------|----|------------------|
| Primary Government:                |    |                  |
| Executive office                   | \$ | 254,527          |
| Administrative services            |    | 127,894          |
| Legal services                     |    | 121,244          |
| Public information and outreach    |    | 98,043           |
| Compliance enforcement             |    | 562,964          |
| Engineering                        |    | 398,154          |
| Planning                           |    | 285,995          |
| Meteorology measurements and rules |    | 967,539          |
| Information services               |    | 513,487          |
| Strategic incentives               |    | <u>46,376</u>    |
| Total depreciation expense         | \$ | <u>3,376,223</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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

At June 30, 2017, components of unearned and unavailable revenues reported were as follows:

|  | <b>Unearned<br/>Revenue</b> | <b>Unavailable<br/>Revenue</b> | <b>Total</b>  |
|--|-----------------------------|--------------------------------|---------------|
| <b>General Fund:</b>                   |                             |                                |               |
| Permits and licenses                   |                             | \$ 2,331,053                   | \$ 2,331,053  |
| Carl Moyer Program Administration      | \$ 899,831                  |                                | 899,831       |
| Lawn and Garden                        | 28,797                      |                                | 28,797        |
| Subtotal General Fund                  | 928,628                     | 2,331,053                      | 3,259,681     |
| <b>Special Revenue Fund:</b>           |                             |                                |               |
| GMB – Administration                   | 532,127                     |                                | 532,127       |
| GMB – On-Road Projects                 | 6,794,461                   |                                | 6,794,461     |
| Shore Power Projects                   | 38                          |                                | 38            |
| TRUs                                   | 48,049                      |                                | 48,049        |
| Locomotive                             | 946,184                     |                                | 946,184       |
| Carl Moyer Program                     | 5,767,678                   |                                | 5,767,678     |
| Retro Level 3                          | 1,069,047                   |                                | 1,069,047     |
| Subtotal Special Revenue Fund          | 15,157,584                  |                                | 15,157,584    |
| Total unearned and unavailable revenue | \$ 16,086,212               | \$ 2,331,053                   | \$ 18,535,881 |

### 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 were held by the Bank of New York Mellon Trust Company, N.A., as Trustee, in an escrow account until the acquisition of the premises by the District which occurred in May 2017. The escrow account paid interest due during the escrow period, at an annual rate of 0.247%, using proceeds of the Certificates. Upon acquisition date, the escrow period ended and the District will begin making base rental payments of \$100,000 starting July 1, 2017. At Acquisition Date the District exercised its option to prepay \$10,700,000 towards the outstanding balance of the Certificates. This prepayment was provided by \$9,000,000 from the sale of its previous office building at 939 Ellis Street and \$1,700,000 from rental payments paid after moving into 375 Beale Street.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Beginning November 2018, the District is subject to mandatory sinking fund account payments as follows:

| <u>Payment Date<br/>(November 1)</u> | <u>Amount</u> | <u>Payment Date<br/>(November 1)</u> | <u>Amount</u> |
|--------------------------------------|---------------|--------------------------------------|---------------|
| 2018                                 | \$ 400,000    | 2032                                 | \$ 700,000    |
| 2019                                 | 400,000       | 2033                                 | 700,000       |
| 2020                                 | 400,000       | 2034                                 | 800,000       |
| 2021                                 | 400,000       | 2035                                 | 800,000       |
| 2022                                 | 500,000       | 2036                                 | 800,000       |
| 2023                                 | 500,000       | 2037                                 | 800,000       |
| 2024                                 | 500,000       | 2038                                 | 800,000       |
| 2025                                 | 500,000       | 2039                                 | 900,000       |
| 2026                                 | 500,000       | 2040                                 | 900,000       |
| 2027                                 | 600,000       | 2041                                 | 900,000       |
| 2028                                 | 600,000       | 2042                                 | 1,000,000     |
| 2029                                 | 600,000       | 2043                                 | 1,000,000     |
| 2030                                 | 600,000       | 2044                                 | 1,000,000     |
| 2031                                 | 700,000       | 2045                                 | 1,000,000     |

The District and BAHA had entered into a financing lease/sublease arrangement whereby at the date of acquisition the District leased its office space to BAHA and BAHA subleased office space back to the District to secure payment on the Certificates. Under the terms of the agreement, total monthly payments have been predetermined and the amount of such payments that relates to interest will be calculated based on the Adjustable Rate Mode accrued at the Adjusted Interest Rate as provided in the lease/sublease agreement with BAHA. Total payments of principal and interest are structured as follows:

| <u>Fiscal Year</u> | <u>Total<br/>Annual<br/>Payments</u> |
|--------------------|--------------------------------------|
| 2018               | \$ 1,200,000                         |
| 2019               | 1,200,000                            |
| 2020               | 1,200,000                            |
| 2021               | 1,200,000                            |
| 2022               | 1,200,000                            |
| 2023-2027          | 6,000,000                            |
| 2028-2032          | 6,850,000                            |
| 2033               | 450,000                              |
|                    | <u>\$ 19,300,000</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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

A schedule of changes in general long-term debt for the year ended June 30, 2017, is shown below:

|                                | <b>Balance<br/>July 1, 2016</b> | <b>Additions</b>    | <b>Deletions</b>       | <b>Balance<br/>June 30, 2017</b> | <b>Due Within<br/>One Year</b> |
|--------------------------------|---------------------------------|---------------------|------------------------|----------------------------------|--------------------------------|
| <b>Governmental Activities</b> |                                 |                     |                        |                                  |                                |
| Certificates of participation  | \$ 30,000,000                   |                     | \$ (10,700,000)        | \$ 19,300,000                    | \$ 1,200,000                   |
| Compensated absences           | 4,181,813                       | \$ 3,962,395        | (3,389,501)            | 4,754,707                        | 3,400,000                      |
| Capital lease                  | 1,891,667                       |                     | (349,084)              | 1,542,583                        | 349,084                        |
| Total                          | <b>\$ 36,073,480</b>            | <b>\$ 3,962,395</b> | <b>\$ (14,472,834)</b> | <b>\$ 25,563,041</b>             | <b>\$ 4,983,333</b>            |

The certificates of participation and long-term portion of compensated absences is liquidated by the General 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 principal and interest of \$399,379 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, 2017 was \$349,084.

### 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> |                     |
|----------------------------|---------------------|
| 2018                       | \$ 745,639          |
| 2019                       | 491,444             |
| 2020                       | 351,127             |
| 2021                       | 164,886             |
| 2022                       | 140,712             |
| 2023-2027                  | 397,535             |
| 2028-2032                  | 82,000              |
|                            | <b>\$ 2,373,343</b> |

Air-monitoring station leases are renewable with minor escalations.

Rental expense for lease agreements above during the year ended June 30, 2017, was \$1,464,350.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### 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, 2017, is as follows:

|                                    |                      |
|------------------------------------|----------------------|
| Alameda                            | \$ 5,353,331         |
| Contra Costa                       | 3,480,957            |
| Marin                              | 1,433,759            |
| Napa                               | 965,897              |
| Santa Clara                        | 8,443,882            |
| San Francisco                      | 4,523,815            |
| San Mateo                          | 4,179,210            |
| Solano                             | 759,102              |
| Sonoma                             | 1,401,075            |
| Total county apportionment revenue | <u>\$ 30,541,028</u> |

### 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](http://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

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017, are summarized as follows:

|   | Classic                     | PEPRA                          |
|---|-----------------------------|--------------------------------|
| Hire date   | Prior to<br>January 1, 2013 | On or after<br>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%                        | 5.5%                           |
| Required employer contribution rates              | 16.063%                     | 16.063%                        |

**Employees Covered** – At June 30, 2017, the following employees were covered by the benefit terms for each Plan:

|  |     |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefits | 311 |
| Inactive employees entitled to but not yet receiving benefits    | 95  |
| Active employees   | 251 |
| Total  | 657 |

**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, 2016, using an annual actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. A summary of the principal assumptions and methods used to determine the net pension liability is shown below.



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

**Actuarial Assumptions** – The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

|  |   |
|--|---|
| Valuation Date                           | June 30, 2015                             |
| Measurement Date                         | June 30, 2016                             |
| Actuarial Cost Method                    | Entry-Age Normal Cost                     |
| Actuarial Assumptions:                   |   |
| Discount Rate                            | 7.65%                                     |
| Inflation                                | 2.75%                                     |
| Payroll Growth                           | 3.0%                                      |
| Projected Salary Increase <sup>(1)</sup> | 3.2% - 12.2%                              |
| Investment Rate of Return <sup>(2)</sup> | 7.50%                                     |
| Mortality <sup>(3)</sup>                 | Derived using CalPERS'<br>Membership Data |

<sup>(1)</sup> Depending on age, service and type of employment

<sup>(2)</sup> Net of pension plan investment and administrative expenses, including inflation

<sup>(3)</sup> 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 2010 Experience Study on the CalPERS website.

**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. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

**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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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.

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<br/>Target<br/>Allocation</u> | <u>Real Return<br/>Years 1 – 10<sup>(a)</sup></u> | <u>Real Return<br/>Years 11+<sup>(b)</sup></u> |
|-------------------------------|--|---|--|
| Global Equity                 | 51.0%                                    | 5.25%   | 5.71%  |
| Global Debt Securities        | 20.0%                                    | 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                     | 1.0%                                     | (0.55)%   | (1.05)%  |
| Total                         | <u>100%</u>                              |   |  |

<sup>(a)</sup> An expected inflation of 2.5% used for this period.

<sup>(b)</sup> An expected inflation of 3.0% used for this period.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

|   | <b>Increase (Decrease)</b>     |                                    |                                      |
|---|--------------------------------|------------------------------------|--------------------------------------|
|   | <b>Total Pension Liability</b> | <b>Plan Fiduciary Net Position</b> | <b>Net Pension Liability (Asset)</b> |
| <b>Balance at June 30, 2016</b>                               | \$ 264,662,853                 | \$ 209,748,424                     | \$ 54,914,429                        |
| <b>Changes recognized for the measurement period:</b>         |                                |                                    |                                      |
| Service cost  | 4,402,254                      |                                    | 4,402,254                            |
| Interest on the total pension liability                       | 19,929,254                     |                                    | 19,929,254                           |
| Changes of assumptions  |                                |                                    |                                      |
| Differences between expected and actual experience            | (584,236)                      |                                    | (584,236)                            |
| Contributions - employer                                      |                                | 5,253,802                          | 5,253,802                            |
| Contributions - employee                                      |                                | 2,502,885                          | 2,502,885                            |
| Net investment income   |                                | 1,102,999                          | 1,102,999                            |
| Benefit payments, including refunds of employee contributions | (11,526,958)                   | (11,526,958)                       |                                      |
| Administrative expense  |                                | (127,831)                          | 127,831                              |
| Net changes   | 12,220,555                     | (2,795,103)                        | 15,015,658                           |
| <b>Balance at June 30, 2017</b>                               | \$ 276,883,408                 | \$ 206,953,321                     | \$ 69,930,087                        |

**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:

|                                  | <b>Discount Rate –1%<br/>(6.65%)</b> | <b>Current<br/>Discount Rate<br/>(7.65%)</b> | <b>Discount Rate +1%<br/>(8.65%)</b> |
|----------------------------------|--------------------------------------|--|--------------------------------------|
| District’s net pension liability | \$ 104,736,376                       | \$ 69,930,087                                | \$ 40,790,702                        |

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

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

**Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions** – For the year ended June 30, 2017, the District recognized pension expense of \$6,147,319. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|---|---|--|
| Contributions subsequent to measurement date                              | \$ 5,685,584                                  |  |
| Change in assumptions   |   | \$ (2,239,716)                               |
| Differences between expected and actual experience                        |   | (1,188,772)                                  |
| Net differences between projected and actual earnings on plan investments | 11,194,027                                    |  |
| <b>Total</b>  | <b>\$ 16,879,611</b>                          | <b>\$ (3,428,488)</b>                        |

\$5,685,584 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:

| <b>Year Ended<br/>June 30</b> |             |
|-------------------------------|-------------|
| 2017                          | \$ (84,958) |
| 2018                          | 84,956      |
| 2019                          | 4,988,860   |
| 2020                          | 2,946,593   |

### 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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

**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 \$2,300,913 for the year ended June 30, 2017. The additional discretionary funding payment approved by the Board for the year ended June 30, 2017, was \$4,000,000. During the year ended June 30, 2017, two hundred eighteen (218) retirees participated in the health insurance plan, one hundred eighty-nine (189) retirees participated in the dental plan, one hundred seventy-four (174) 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.

**Annual OPEB Cost and Net OPEB Obligation** – The ARC was determined as part of the June 30, 2015 actuarial valuation. The ARC rate was 17.4% of annual covered payroll. For the year ended June 30, 2017, the District’s annual other postemployment benefit cost (expense) is \$5,583,000. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District’s net OPEB obligation to the plan:

|                                       |                         |
|---------------------------------------|-------------------------|
| Annual required contribution          | \$ 5,885,000            |
| Interest on net OPEB obligation       | 385,000                 |
| Amortization of net OPEB obligation   | <u>(687,000)</u>        |
| Annual OPEB cost (expense)            | 5,583,000               |
| Contributions made                    | <u>(6,300,913)</u>      |
| Decrease in net OPEB obligation       | (717,913)               |
| Net OPEB obligation-beginning of year | <u>4,839,742</u>        |
| <br>Net OPEB obligation-end of year   | <br><u>\$ 4,121,829</u> |

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017, and the two preceding years was as follows:

| <u>Fiscal<br/>Year<br/>Ended</u> | <u>Annual<br/>OPEB<br/>Cost</u> | <u>Percentage of<br/>Annual OPEB<br/>Cost Contributed</u> | <u>Net<br/>OPEB<br/>Obligation</u> |
|----------------------------------|---------------------------------|---|------------------------------------|
| 6/30/15                          | \$ 4,212,000                    | 116.1%  | \$ 5,809,299                       |
| 6/30/16                          | \$ 4,218,000                    | 123.0%  | \$ 4,839,742                       |
| 6/30/17                          | \$ 5,583,000                    | 112.9%  | \$ 4,121,829                       |

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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)       | <u>\$ 32,954,000</u> |
| 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.

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 11 (eleven) years remaining as of June 30, 2017.

## 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.

# **BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017**

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As of June 30, 2017, 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, 2017

### OTHER POSTEMPLOYMENT BENEFITS (OPEB)

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Asset Value<br/>(a)</u> | <u>Entry Age<br/>Actuarial<br/>Accrued<br/>Liability<br/>(b)</u> | <u>Unfunded<br/>AAL (UAAL)<br/>(b-a)</u> | <u>Funded<br/>Ratio<br/>(a/b)</u> | <u>Covered<br/>Payroll<br/>(c)</u> | <u>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll<br/>((b-a)/c)</u> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 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**  
**LAST 10 YEARS\***

**Bay Area Air Quality Management District Miscellaneous Plan**

|   | Measurement Date      |                       |                           |
|---|-----------------------|-----------------------|---------------------------|
|   | 2016                  | 2015                  | 2014                      |
| <b>Total pension liability</b>  |                       |                       |                           |
| Service cost  | \$ 4,402,254          | \$ 4,405,494          | \$ 4,509,169              |
| Interest  | 19,929,495            | 19,019,896            | 18,144,590                |
| Changes of assumptions  |                       | (4,479,434)           |                           |
| Difference between expected and actual experience                                   | (584,236)             | (1,508,680)           |                           |
| Benefit payments, including refunds of employee contributions                       | (11,526,958)          | (10,371,769)          | (9,459,410)               |
| Net change in total pension liability   | 12,220,555            | 7,065,507             | 13,194,349                |
| <b>Total pension liability – beginning</b>  | 264,662,853           | 257,597,346           | 244,402,997               |
| <b>Total pension liability – ending (a)</b>   | <u>\$ 276,883,408</u> | <u>\$ 264,662,853</u> | <u>\$ 257,597,346</u>     |
| <b>Plan fiduciary net position</b>  |                       |                       |                           |
| Contributions – employer  | \$ 5,253,802          | \$ 4,268,315          | \$ 3,815,653              |
| Contributions – employee  | 2,502,885             | 2,372,392             | 2,622,951                 |
| Net investment income   | 1,102,999             | 4,871,767             | 31,178,442 <sup>(1)</sup> |
| Benefit payments, including refunds of employee contributions                       | (11,526,958)          | (10,371,769)          | (9,459,410)               |
| Administrative Expense  | (127,831)             | (236,125)             |                           |
| Net change in fiduciary net position  | (2,795,103)           | 904,580               | 28,157,636                |
| <b>Plan fiduciary net position – beginning</b>                                      | 209,748,424           | 208,843,844           | 180,686,208               |
| <b>Plan fiduciary net position – ending (b)</b>                                     | <u>\$ 206,953,321</u> | <u>\$ 209,748,424</u> | <u>\$ 208,843,844</u>     |
| <b>District's net pension liability – (a) - (b)</b>                                 | <u>\$ 69,930,087</u>  | <u>\$ 54,914,429</u>  | <u>\$ 48,753,502</u>      |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b>   | 74.74%                | 79.25%                | 81.07%                    |
| <b>District's covered-employee payroll</b>  | \$ 34,119,169         | \$ 33,133,499         | \$ 32,010,647             |
| <b>District's net pension liability as a percentage of covered-employee payroll</b> | 204.96%               | 165.74%               | 152.30%                   |

<sup>(1)</sup> Net of administrative expenses.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**SCHEDULE OF CHANGES IN THE DISTRICT'S NET PENSION LIABILITY**  
**AND RELATED RATIOS (continued)**  
**LAST 10 YEARS\***

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**Notes to Schedule:**

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

**Changes in assumptions** – In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

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

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS LAST 10 YEARS\*

### Bay Area Air Quality Management District Miscellaneous Plan

|  | Fiscal Year   |               |               |
|--|---------------|---------------|---------------|
|  | 2017          | 2016          | 2015          |
| Actuarially determined contribution                                      | \$ 5,685,584  | \$ 5,365,344  | \$ 4,268,315  |
| Contributions in relation to the actuarially<br>determined contributions | (5,685,584)   | (5,365,344)   | (4,268,315)   |
| Contribution deficiency (excess)   | \$            | \$            | \$            |
| District's covered-employee payroll                                      | \$ 35,433,438 | \$ 34,119,169 | \$ 33,133,499 |
| Contributions as a percentage of covered-employee<br>payroll             | 16.053%       | 15.73%        | 12.88%        |

\* Fiscal year 2015 was the 1st year of implementation, therefore only three 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, 2017

|  | Budgeted Amounts    |                       | Actual<br>(Budgetary<br>Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|---------------------|-----------------------|--------------------------------|---|
|  | Original            | Final                 |                                |   |
| <b>REVENUES</b>  |                     |                       |                                |   |
| Permit fees  | \$ 33,089,586       | \$ 33,089,586         | \$ 33,249,992                  | \$ 160,406  |
| Title V permit fees  | 4,687,437           | 4,687,437             | 5,021,094                      | 333,657   |
| AB 2588 income   | 392,953             | 239,348               | 211,380                        | (27,968)  |
| County apportionment   | 26,869,727          | 26,869,727            | 30,541,028                     | 3,671,301   |
| Federal grant - EPA  | 1,886,016           | 1,886,016             | 2,658,675                      | 772,659   |
| Federal grant - DHS  | 1,288,461           | 1,288,461             | 1,114,628                      | (173,833)   |
| CMAQ Spare the Air   | 885,000             | 885,000               | 823,094                        | (61,906)  |
| Penalties and variance fees                                  | 2,200,000           | 2,200,000             | 3,335,649                      | 1,135,649   |
| Hearing board fees   | 20,000              | 20,000                | 5,722                          | (14,278)  |
| Asbestos fees  | 2,600,000           | 2,600,000             | 4,210,603                      | 1,610,603   |
| State subvention   | 1,722,000           | 1,722,000             | 1,727,036                      | 5,036   |
| State grants   | 446,555             | 446,555               | 416,622                        | (29,933)  |
| Portable equipment registration program (PERP)               | 400,000             | 400,000               |                                | (400,000)   |
| Special environmental projects                               |                     |                       | 4,950                          | 4,950   |
| Interest   | 200,000             | 200,000               | 669,209                        | 469,209   |
| Miscellaneous  | 150,000             | 150,000               | 267,804                        | 117,804   |
| Total revenues   | <u>76,837,735</u>   | <u>76,684,130</u>     | <u>84,257,486</u>              | <u>7,573,356</u>  |
| <b>EXPENDITURES</b>  |                     |                       |                                |   |
| Executive office and finance                                 | 7,835,923           | 9,017,375             | 8,093,683                      | 923,692   |
| Administration   | 11,819,075          | 14,268,834            | 10,478,822                     | 3,790,012   |
| Information systems  | 4,543,191           | 4,943,045             | 4,355,571                      | 587,474   |
| Legal services   | 3,102,594           | 3,109,017             | 3,236,436                      | (127,419)   |
| Outreach and incentives                                      | 4,903,263           | 5,981,709             | 4,758,577                      | 1,223,132   |
| Compliance and enforcement                                   | 12,292,052          | 12,347,599            | 12,439,435                     | (91,836)  |
| Engineering  | 10,372,323          | 10,700,594            | 8,877,373                      | 1,823,221   |
| Planning and research  | 6,727,082           | 7,734,092             | 6,679,171                      | 1,054,921   |
| Meteorology, measurement and rules                           | 13,030,692          | 14,080,002            | 11,880,260                     | 2,199,742   |
| Strategic incentives division                                | 663,117             | 860,398               | 1,106,412                      | (246,014)   |
| Technology Implementation Office                             | 459,588             | 459,588               | 51,629                         | 407,959   |
| Program distribution   |                     |                       | 2,002,846                      | (2,002,846)   |
| 1% vacancy savings   | <u>(2,171,153)</u>  | <u>(2,171,153)</u>    |                                | <u>(2,171,153)</u>                                      |
| Total current expenditures                                   | <u>73,577,748</u>   | <u>81,331,100</u>     | <u>73,960,215</u>              | <u>7,370,885</u>  |
| Principal  |                     |                       | 11,049,084                     | (11,049,084)  |
| Interest   |                     |                       | 50,295                         | (50,295)  |
| Capital outlay   | <u>3,965,934</u>    | <u>8,720,618</u>      | <u>3,626,490</u>               | <u>5,094,128</u>  |
| Total expenditures   | <u>77,543,682</u>   | <u>90,051,718</u>     | <u>88,686,084</u>              | <u>1,365,634</u>  |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <u>(705,947)</u>    | <u>(13,367,588)</u>   | <u>(4,428,598)</u>             | <u>8,938,990</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                     |                       |                                |   |
| Proceeds from capital lease                                  |                     |                       |                                |   |
| Transfers in   | <u>384,829</u>      | <u>384,829</u>        | <u>541,768</u>                 | <u>156,939</u>  |
| <b>NET CHANGE IN FUND BALANCE</b>                            | <u>\$ (321,118)</u> | <u>\$(12,982,759)</u> | <u>(3,886,830)</u>             | <u>\$ 9,095,929</u>                                     |
| <b>BEGINNING BUDGETARY FUND BALANCE</b>                      |                     |                       | <u>67,639,604</u>              |   |
| <b>ENDING BUDGETARY FUND BALANCE</b>                         |                     |                       | <u>\$ 63,752,774</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, 2017

|  | Budgeted Amounts |               | Actual<br>(Budgetary<br>Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|---------------|--------------------------------|---|
|  | Original         | Final         |                                |   |
| <b>REVENUES</b>  |                  |               |                                |   |
| TFCA/MSIF DMV fee  | \$ 35,056,950    | \$ 57,704,436 | \$ 26,068,171                  | \$ (31,636,265)   |
| CA Goods Movement revenue & other programs               | 16,936,210       | 1,968,902     | 1,319,640                      | (649,262)   |
| Carl Moyer Program                                       | 6,698,331        | 6,737,182     | 5,922,319                      | (814,863)   |
| AB 434/923 others  | 840,290          | 840,290       | 972,153                        | 131,863   |
| Total revenues   | 59,531,781       | 67,250,810    | 34,282,283                     | (32,968,527)  |
| <b>EXPENDITURES</b>                                      |                  |               |                                |   |
| TFCA/MSIF, Carl Moyer, & other programs:                 |                  |               |                                |   |
| Program distribution                                     | 28,770,478       | 48,375,102    | 23,832,152                     | 24,542,950  |
| Intermittent control                                     | 1,370,868        | 2,441,022     | 1,349,091                      | 1,091,931   |
| TFCA administration                                      | 1,251,687        | 1,564,959     | 890,927                        | 674,032   |
| Vehicle buy-back   | 7,300,674        | 7,671,304     | 5,196,874                      | 2,474,430   |
| Mobile source incentive                                  | 611,798          | 666,075       | 629,874                        | 36,201  |
| CarSharing incentive program                             | 151,186          | 197,518       | 15,771                         | 181,747   |
| Regional electric vehicle deployment                     | 976,109          | 2,203,156     | 119,144                        | 2,084,012   |
| Enhanced mobile source inspection                        | 1,322,481        | 1,322,482     | 332,183                        | 990,299   |
| California Goods Movement Program & other programs:      |                  |               |                                |   |
| Grant administration                                     | 936,210          | 971,167       | 502,123                        | 469,044   |
| Truck Program/LESBP                                      | 16,000,000       | 997,735       | 879,753                        | 117,982   |
| Total expenditures                                       | 58,691,491       | 66,410,520    | 33,747,892                     | 32,662,628  |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> | 840,290          | 840,290       | 534,391                        | (305,899)   |
| <b>OTHER FINANCING USES</b>                              |                  |               |                                |   |
| Transfers out  | (840,290)        | (840,290)     | (534,391)                      | 305,899   |
| <b>NET CHANGE IN FUND BALANCE</b>                        | \$               | \$            | \$                             | \$  |
| <b>BEGINNING BUDGETARY FUND BALANCE</b>                  |                  |               | \$                             |   |
| <b>ENDING BUDGETARY FUND BALANCE</b>                     |                  |               | \$                             |   |

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

### 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>Special<br/>Revenue Fund</u> |
|---------------------------------|---------------------------------|
| Revenues – Budgetary Basis      | \$ 34,282,283                   |
| Revenue recognition adjustments | <u>12,283,211</u>               |
| Revenues – GAAP Basis           | <u>\$ 46,565,494</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, 2017

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| <u>Programs</u>                         | <u>Salaries and<br/>Benefits</u> | <u>Services and<br/>Supplies</u> | <u>Program<br/>Distribution</u> | <u>Total</u>         |
|---|----------------------------------|----------------------------------|---------------------------------|----------------------|
| Program distribution                    |                                  |                                  | \$ 23,832,152                   | \$ 23,832,152        |
| Intermittent control                    | \$ 653,355                       | \$ 695,736                       |                                 | 1,349,091            |
| TFCA administration                     | 792,832                          | 98,095                           |                                 | 890,927              |
| Vehicle buy-back                        | 40,313                           | 5,156,561                        |                                 | 5,196,874            |
| Mobile source incentive                 | 616,709                          | 13,165                           |                                 | 629,874              |
| CarSharing incentive program            | 15,771                           |                                  |                                 | 15,771               |
| Regional electric vehicle<br>deployment | 65,143                           | 54,001                           |                                 | 119,144              |
| Enhanced inspection program             | <u>328,805</u>                   | <u>3,378</u>                     |                                 | <u>332,183</u>       |
| Total expenditures                      | <u>\$ 2,512,928</u>              | <u>\$ 6,020,936</u>              | <u>\$ 23,832,152</u>            | <u>\$ 32,366,016</u> |

**BAY AREA AIR QUALITY  
MANAGEMENT DISTRICT**

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

**FOR THE YEAR ENDED JUNE 30, 2017**

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

FOR THE YEAR ENDED JUNE 30, 2017

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## 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<br>and on Compliance and Other Matters Based on an Audit<br>of Financial Statements Performed in Accordance with<br><i>Government Auditing Standards</i> and the<br>Transportation Fund for Clean Air (TFCA) Program | 3           |
| Report on Compliance for Each Major Program;<br>Report on Internal Control Over Compliance; and Report<br>on Schedule of Expenditures of Federal Awards<br>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, 2017

| Federal Grantor/Pass-Through Grantor/<br>Program or Cluster Title   | Pass-Through /<br>Grant Identifying<br>Number | Federal<br>CFDA<br>Number | Passed<br>Through to<br>Subrecipients | Federal<br>Expenditures |
|---|---|---------------------------|---------------------------------------|-------------------------|
| <b>U.S. Environmental Protection Agency:</b>  |   |                           |                                       |                         |
| Surveys, Studies, Research, Investigations, Demonstrations, and<br>Special Purpose Activities Relating to the Clean Air Act | PM99T08001-4                                  | 66.034                    |                                       | \$ 173,253              |
| Surveys, Studies, Research, Investigations, Demonstrations, and<br>Special Purpose Activities Relating to the Clean Air Act | PM99T08001-7                                  | 66.034                    |                                       | 121,448                 |
| National Air Toxics Trend Study   | XA99T39801                                    | 66.034                    |                                       | 103,274                 |
| Total CFDA 66.034   |   |                           |                                       | <u>397,975</u>          |
| Air Pollution Control Program Support   | A00905616                                     | 66.001                    |                                       | 204,303                 |
| Air Pollution Control Program Support   | A00905617                                     | 66.001                    | \$ 629,892                            | 2,056,397               |
| Total CFDA 66.001   |   |                           | <u>629,892</u>                        | <u>2,260,700</u>        |
| Total U.S. Environmental Protection Agency  |   |                           | <u>629,892</u>                        | <u>2,658,675</u>        |
| <b>U.S. Department of Homeland Security:</b>  |   |                           |                                       |                         |
| Homeland Security Biowatch Program  | 2006-ST-91-2                                  | 97.091                    |                                       | <u>1,114,627</u>        |
| <b>U.S. Department of Transportation:</b>   |   |                           |                                       |                         |
| Passed through California Department of Transportation:<br>Highway Planning and Construction                                | CML-6297(003)                                 | 20.205                    |                                       | 823,094                 |
| Highway Planning and Construction   | CML-6297(007)                                 | 20.205                    |                                       | 8,869                   |
| Total CFDA 20.205 and U.S. Department of Transportation   |   |                           |                                       | <u>831,963</u>          |
| Total Expenditures of Federal Awards  |   |                           | <u>\$ 629,892</u>                     | <u>\$ 4,605,265</u>     |

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, 2017

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### 1. REPORTING ENTITY

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

### 4. 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 2, 2018.

**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.*

GILBERT ASSOCIATES, INC.  
Sacramento, California

January 2, 2018

**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, 2017. 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, 2017.

**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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated January 2, 2018, 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**

**January 2, 2018**

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

### 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

66.001

Air Pollution Control 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, 2017**

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

There were no financial statement findings reported.

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

There were no federal compliance findings reported.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

---

There were no findings in the prior year.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

Memorandum

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

From: Jack P. Broadbent  
Executive Officer/APCO

Date: January 10, 2018

Re: Second Quarter Financial Report – Fiscal Year Ending 2018

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Finance staff will present an update on the Air District’s financial results for the second quarter of the Fiscal Year Ending (FYE) 2018. The following information summarizes those results.

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

| REVENUE TYPE              | 2ND QTR FY 2017 | 2ND QTR FY 2018 | FY 2018 - % of BUDGETED REVENUE |
|---------------------------|-----------------|-----------------|---------------------------------|
| County Receipts           | \$9,674,398     | \$12,630,318    | 40%                             |
| Permit Fee Receipts       | \$22,992,414    | \$27,841,019    | 76%                             |
| Title V Permit Fees       | \$3,516,484     | \$4,531,526     | 83%                             |
| Asbestos Fees             | \$2,119,771     | \$1,956,790     | 78%                             |
| Toxic Inventory Fees      | \$504,891       | \$375,639       | 103%                            |
| Penalties and Settlements | \$2,311,725     | \$1,121,691     | 41%                             |
| Interest Revenues         | \$256,543       | \$165,106       | 58%                             |
| Miscellaneous Revenues    | \$31,887        | \$19,994        | 40%                             |
| Total Revenue             | \$41,408,112    | \$48,642,082    | 61%                             |

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

| EXPENDITURE TYPE                | 2ND QTR FY 2017 | 2ND QTR FY 2018 | FY 2018 - % of BUDGETED REVENUE |
|---------------------------------|-----------------|-----------------|---------------------------------|
| Personnel - Salaries*           | \$18,032,010    | \$18,965,893    | 47%                             |
| Personnel - Fringe Benefits*    | \$7,726,650     | \$9,847,850     | 44%                             |
| Operational Services / Supplies | \$8,509,724     | \$8,771,834     | 28%                             |
| Capital Outlay                  | \$1,716,979     | \$3,244,123     | 57%                             |
| Total Expenditures              | \$35,985,363    | \$40,829,700    | 41%                             |

\*Consolidated (includes Special Funds)

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

| CASH/INVESTMENTS  | 2ND QTR FY 2017 | 2ND QTR FY 2018 |
|-------------------|-----------------|-----------------|
| General Fund      | \$63,975,487    | \$65,115,333    |
| TFCA              | \$84,300,652    | \$89,137,168    |
| MSIF              | \$34,418,112    | \$40,382,365    |
| Carl Moyer        | \$6,232,847     | \$5,075,327     |
| CA Goods Movement | \$8,958,517     | \$10,553,891    |
| Bike Share        | \$1,061,153     | \$1,072,305     |
| Total             | \$198,946,769   | \$211,336,388   |

|   | 6/30/2016           | 6/30/2017           | 6/30/2018            |
|---|---------------------|---------------------|----------------------|
| FUND BALANCES   | Audited             | Audited             | Projected            |
| DESIGNATED: *   |                     |                     |                      |
| Diversity Equity & Inclusion  |                     |                     | 100,000              |
| Economic Contingency  | \$16,519,959        | \$16,519,959        | \$17,390,311         |
| IT- Event Response  | \$500,000           | \$500,000           | \$500,000            |
| Litigation  |                     |                     | \$500,000            |
| Pension & Post Employment Liability                                     | \$1,600,000         | \$1,600,000         | \$440,000            |
| Tech- Meteorological Network Equipment                                  | \$417,100           | \$131,100           | \$131,100            |
| Tech- Mobile Monitoring Instruments                                     | \$450,000           | \$80,000            | \$80,000             |
| Technology Implementation Office  |                     |                     | \$3,350,000          |
| GHG Abatement Technology Study  | \$1,500,000         | \$1,500,000         | \$1,500,000          |
| Woodchip Program  |                     |                     | \$150,000            |
| Woodsmoke Grant   |                     |                     | \$1,000,000          |
| Worker's Comp Self -Funding   | \$1,000,000         | \$1,000,000         | \$1,000,000          |
| Total Designated Reserves   | \$21,987,059        | \$21,331,059        | \$26,141,411         |
| Undesignated Fund Balance   | \$13,366,286        | \$20,455,742        | \$14,793,358         |
| Use of Fund Balance   |                     | (\$852,032)         | (\$7,850,000)        |
| <b>TOTAL DESIGNATED &amp; UNDESIGNATED</b>                              | <b>\$35,353,345</b> | <b>\$40,934,769</b> | <b>\$33,084,769</b>  |
| Building Proceeds   | \$4,668,200         | \$4,668,200         | \$4,668,200          |
| <b>TOTAL FUND BALANCE</b>   | <b>\$40,021,545</b> | <b>\$45,602,969</b> | <b>\$37,752,969</b>  |
| * Designated Fund Balances are subject to change at Board's discretion. |                     |                     |                      |
| <b>UNFUNDED LIABILITIES (Based on 2016 Actuarial Valuation Report)</b>  |                     |                     |                      |
| CalPERS Pension Retirement  |                     |                     | \$77,114,925         |
| Other Post- Employment Benefits   |                     |                     | \$32,954,000         |
| <b>TOTAL UNFUNDED LIABILITIES</b>                                       |                     |                     | <b>\$110,068,925</b> |

**VENDOR PAYMENTS**

In accordance with provisions of the Administrative Code, Division II Fiscal Policies and Procedures - Section 4 Purchasing Procedures: 4.3 Contract Limitations, staff is required to

present recurring payments for routine business needs such as utilities, licenses, office supplies and the like, more than, or accumulating to more than \$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 2017-2018 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 2017-18.

| VENDOR NAME                             | AMOUNT PAID<br>(July 2017 - Dec 2017) | Explanation                                 |
|---|---------------------------------------|---|
| 1. Alliant Insurance Services           | \$447,829                             | Various Business Insurance Policies         |
| 2. Benefits Coordinators Corp.          | \$451,463                             | Life Insurance Plan & LTD Insurance         |
| 3. CA Public Employee Retirement System | \$3,031,012                           | Health Insurance Plan                       |
| 4. CA Public Employee Retirement System | \$1,723,094                           | Retirement Benefits & 457 Supplemental Plan |
| 5. CAPCOA                               | \$630,892                             | Pass through EPA grants                     |
| 6. Cubic Transportations Systems        | \$182,056                             | Clipper Transit Subsidy                     |
| 7. Hartford Life Ins Co.                | \$339,100                             | 457 Supplemental Insurance                  |
| 8. Preferred Benefit Insurance AD       | \$306,048                             | Dental Insurance Plan                       |
| 9. SoftwareOne Inc.                     | \$332,209                             | Microsoft Subscription Service              |

BUDGET CONSIDERATION/FINANCIAL IMPACT

None; receive and file.



Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Stephanie Osaze  
Reviewed by: Jeffrey McKay

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

Memorandum

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

From: Jack P. Broadbent  
Executive Officer/APCO

Date: January 10, 2018

Re: Air District Financial Overview

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RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Staff will provide a financial overview that will include a discussion of the strategies employed during the FYE 2018 budget cycle and implications for the coming FYE 2019 budget process. This will be the first of a two-part presentation, with the second presentation scheduled for the February Budget and Finance Committee Meeting.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Jeffrey McKay