

# Bay Area Air Quality Management District

## Budget & Finance Committee Meeting

January 24, 2018



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## AUDIT DELIVERABLES

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### I. FINANCIAL STATEMENTS

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

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

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

### **The Financial Statements**

Pages 3-12      **Management's Discussion and Analysis**

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

Pages 13-14      **Government-wide Statements**

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

The government-wide financial statements include:

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

## AUDIT DELIVERABLES (Continued)

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### I. FINANCIAL STATEMENTS (Continued)

#### Pages 15-18 **Fund-based Statements**

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

#### Pages 19-41 **The Notes to the Financial Statements**

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

#### **Required Supplementary Information**

Page 42 Schedules of Funding Progress for OPEB

Page 43-44 Schedule of Changes to the District's Net Pension Liability and Related Ratios

Page 45 Schedule of the District's Contributions

Pages 46-47 Budget and Actual Comparisons

- General Fund
- Special Revenue Fund

#### **Supplementary Information**

Page 49 Transportation Fund for Clean Air (TFCA) Program, Mobile Source Incentive Program, Carl Moyer Program, & Other Programs - Schedule of Expenditures

## II. UNIFORM GUIDANCE AND TRANSPORTATION FUND FOR CLEAN AIR COMPLIANCE AUDIT REPORTS

Page 1 **Schedule of Expenditures of Federal Awards - \$4,605,265**

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

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

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

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

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

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

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

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

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

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

- ⇒ No findings reported in prior year

# COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities and each major fund of the Bay Area Air Quality Management District (District) for the year ended June 30, 2017, and have issued our report thereon dated January 2, 2018. Professional standards require that we provide you with the following information related to our audit. We are providing the District's Budget and Finance Committee with information regarding the scope and results of the audit to assist the Committee in overseeing management's financial reporting and disclosure process. This information is intended solely for the use of the Board of Directors, Budget and Finance Committee, and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties. Below we summarize these required communications.

Area	Comments
<p><b>Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS), Government Auditing Standards, and Uniform Guidance.</b></p> <p>The financial statements are the responsibility of management. As stated in our engagement contract, our responsibility is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Uniform Guidance.</p> <p>As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.</p> <p>Also in accordance with Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the OMB Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.</p>	<p>We issued unmodified opinions on the financial statements and on the <i>Government Auditing Standards</i> and Uniform Guidance (Single Audit) reports of the District for the year ended June 30, 2017.</p>

Area	Comments
<p><b>Planned Scope and Timing of the Audit</b></p>	<p>We performed the audit according to the planned scope and timing previously communicated to you in our Contract.</p>
<p><b>Difficulties Encountered in Performing the Audit</b></p>	<p>We encountered no significant difficulties in dealing with management in performing and completing our audit. Management and staff were well prepared and cooperative.</p>
<p><b>Disagreements with Management</b></p> <p>For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.</p>	<p>We are pleased to report that no such disagreements arose during the course of our audit.</p>
<p><b>Management Representations</b></p>	<p>We have requested certain representations from management that are included in their letter to us dated January 2, 2018.</p>
<p><b>Management Consultations with Other Independent Accountants</b></p> <p>In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.</p>	<p>To our knowledge, there were no such consultations with other accountants.</p>
<p><b>Significant Accounting Policies</b></p> <p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our Contract, we will advise management about the appropriateness of accounting policies and their application.</p>	<p>The significant accounting policies used by the District are described in Note 1 of the financial statements.</p> <p>We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.</p>

Area	Comments
<p><b>Management Judgments and Accounting Estimates</b></p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and disclosures and because of the possibility that future events affecting them may differ significantly from those expected.</p>	<p>The most sensitive estimates affecting the District's financial statements were:</p> <ul style="list-style-type: none"> <li>• Management's estimate of the valuation of postretirement healthcare benefits expense and liabilities are based on actuarial projections.</li> <li>• Management's estimates of the useful lives of capital assets are based on historical experience and industry standards.</li> <li>• Management's estimate of the net pension liability and related deferred inflows and outflows of resources is based upon the District's CalPERS plan pension amounts as of the June 30, 2016 measurement date. CalPERS calculates the net pension liability by reducing the total pension liability (actuarially-determined by rolling-forward obligations from the June 30, 2015 actuarial valuation using standard update procedures) by the plan's fiduciary net position as of the measurement date.</li> </ul> <p>We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. In addition, the related financial statement disclosures are neutral, consistent, and clear.</p>
<p><b>Corrected and Uncorrected Misstatements</b></p> <p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.</p>	<p>One passed-on journal entry detected as a result of our audit procedures was not recorded by management. Management, with our concurrence, has determined that the effect is immaterial to the financial statements taken as a whole.</p> <ul style="list-style-type: none"> <li>• The entry would decrease the General Fund's fund balance by \$132,236 to account for estimated claims liability loss reserves.</li> </ul>
<p><b>Other Audit Findings or Issues</b></p>	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.</p>
<p><b>Required Supplementary Information</b></p> <p>Government Accounting Standards Board (GASB) requires certain supplementary information to accompany the District's basic financial statements to be in conformity with generally accepted accounting principles. Such information has been subjected to limited procedures such as inquiries of management about the methods of preparing the information and comparing the information for consistency with the basic financial statements, however, we do not express an opinion because of the limited nature of our procedures.</p>	<p>The following required supplementary information is required to accompany the District's basic financial statements and subjected to limited procedures, but no opinion has been expressed:</p> <ul style="list-style-type: none"> <li>• Management's Discussion and Analysis</li> <li>• Schedule of Funding Progress - OPEB</li> <li>• Schedule of Changes in the District's Net Pension Liability and Related Ratios</li> <li>• Schedule of the District's Pension Contributions</li> <li>• Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund &amp; Special Revenue Fund</li> </ul>



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



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

# Bay Area Air Quality Management District

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**Budget & Finance Committee Meeting**  
January 24, 2018

**Second Quarter Financial Report**  
**Fiscal Year Ending 2018**

**Stephanie Osaze**  
Finance Manager



# OVERVIEW

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## **General Fund Reporting on 2nd Quarter financial results (July 1, 2017 – December 31, 2017):**

- Revenues
- Expenditures
- Investments
- General Fund Balance & Unfunded Liabilities
- Purchasing Report Requirements



## 2<sup>nd</sup> Quarter Results FYE 2018

### General Fund - Revenues

Major Categories	FYE 2018 Budget	FYE 2018 Actual (as of 12/31/2017)	Percentage of Budgeted Revenues
County receipts	\$31,518,760	\$12,630,318	40%
Permit Fees	\$36,655,518	\$27,841,019	76%
Title V Permit Fees	\$5,467,881	\$4,531,526	83%
Asbestos Fees	\$2,500,000	\$1,956,790	78%
Toxic Inventory Fees	\$363,081	\$375,639	103%
Penalties and Settlements	\$2,750,000	\$1,121,691	41%
Interest Revenue	\$285,000	\$165,106	58%
Miscellaneous Revenue	\$50,000	\$19,994	40%
<b>Total Revenues</b>	<b>\$79,590,240</b>	<b>\$48,642,082</b>	<b>61%</b>



# Revenue Comparison

## Prior Year vs. Current Year

Major Categories	FYE 2017 (As of 12/31/2016)	FYE 2018 (As of 12/31/2017)	\$ DIFFERENCE
County receipts	\$9,674,398	\$12,630,318	\$2,955,920
Permit Fee receipts	\$22,992,414	\$27,841,019	\$4,848,606
Title V Permit Fees	\$3,516,484	\$4,531,526	\$1,015,042
Asbestos Fees	\$2,119,771	\$1,956,790	(\$162,982)
Toxic Inventory Fees	\$504,891	\$375,639	(\$129,252)
Penalties and Settlements	\$2,311,725	\$1,121,691	(\$1,190,034)
Interest Revenue	\$256,543	\$165,106	(\$91,437)
Miscellaneous Revenue	\$31,887	\$19,994	(\$11,893)
<b>TOTAL REVENUES</b>	<b>\$41,408,112</b>	<b>\$48,642,082</b>	<b>\$7,233,971</b>



## 2<sup>nd</sup> Quarter Results FYE 2018

### General Fund - Expenses

Major Categories	FY 2018 Budget	FYE 2018 Actual (as of 12/31/2017)	Percentage of Budgeted Expenditures
* Personnel - Salaries	\$40,124,748	\$18,965,893	47%
* Personnel - Benefits	\$22,225,447	\$9,847,850	44%
Operational Services and Supplies	\$31,195,830	\$8,771,834	28%
Capital Outlay	\$5,691,775	\$3,244,123	57%
<b>Total Expenditures</b>	<b>\$99,237,800</b>	<b>\$40,829,700</b>	<b>41%</b>

**\* Consolidated (Includes Special Funds)**



# Expenditure Comparison

## Prior Year vs. Current Year

Major Categories	FYE 2017 (As of 12/31/2016)	FYE 2018 (As of 12/31/2017)	\$ DIFFERENCE
*Personnel - Salaries	\$18,032,010	\$18,965,893	\$933,884
*Personnel - Benefits	\$7,726,650	\$9,847,850	\$2,121,200
Operational Services and Supplies	\$8,509,724	\$8,771,834	\$262,110
Capital Outlay	\$1,716,979	\$3,244,123	\$1,527,143
<b>TOTAL EXPENDITURES</b>	<b>\$35,985,363</b>	<b>\$40,829,700</b>	<b>\$4,844,337</b>

\*Consolidated includes Special Funds



## 2<sup>nd</sup> Quarter Results FYE 2018

### Cash and Investments with County Treasury: (Based on December 2017 Account Balance)

General Fund	\$65,115,333
TFCA	\$89,137,168
MSIF	\$40,382,365
Carl Moyer	\$5,075,327
CA Goods Movement	\$10,553,891
BikeShare	\$1,072,305
<b>TOTAL</b>	<b><u>\$211,336,388</u></b>





# Fund Balance and Unfunded Liabilities

FUND BALANCES	6/30/2016 Audited	6/30/2017 Audited	6/30/2018 Projected
<b>DESIGNATED: *</b>			
Diversity Equity & Inclusion	0	0	100,000
Economic Contingency	16,519,959	16,519,959	17,390,311
IT- Event Response	500,000	500,000	500,000
Litigation	0	0	500,000
Pension & Post Employment Liability	1,600,000	1,600,000	440,000
Tech- Meterological Network Equipment	417,100	131,100	131,100
Tech- Mobile Monitoring Instruments	450,000	80,000	80,000
Technology Implementation Office	0	0	3,350,000
GHG Abatement Technology Study	1,500,000	1,500,000	1,500,000
Woodchip Program	0	0	150,000
Woodsmoke Grant	0	0	1,000,000
Worker's Comp Self -Funding	1,000,000	1,000,000	1,000,000
<b>TOTAL DESIGNATED</b>	<b>\$21,987,059</b>	<b>\$21,331,059</b>	<b>\$26,141,411</b>
<b>UNDESIGNATED</b>	<b>13,366,286</b>	<b>20,455,742</b>	<b>14,793,358</b>
Use of Fund Balance	0	(852,032)	(7,850,000)
<b>TOTAL UNDESIGNATED</b>	<b>\$13,366,286</b>	<b>\$19,603,710</b>	<b>\$6,943,358</b>
<b>TOTAL DESIGNATED &amp; UNDESIGNATED</b>	<b>\$35,353,345</b>	<b>\$40,934,769</b>	<b>\$33,084,769</b>
<b>BUILDING PROCEEDS:</b>	<b>4,668,200</b>	<b>4,668,200</b>	<b>4,668,200</b>
<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>



# Purchasing Reporting Requirements

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

Recurring payments of routine business needs such as utilities, licenses, office supplies etc. that are more than **\$100,000** shall be presented in the Quarterly Financial Report.

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



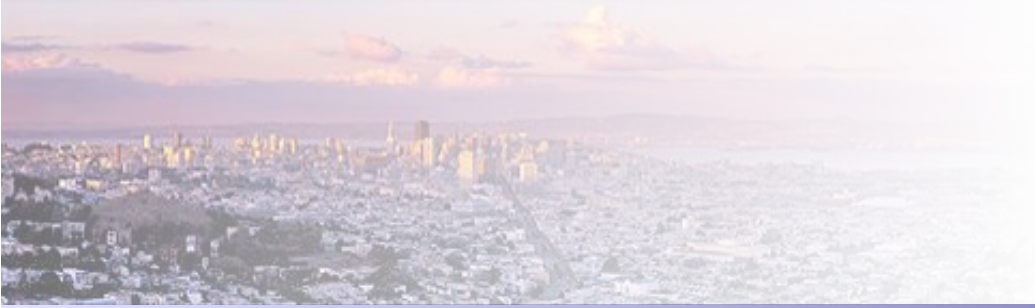
# FYE 2018 Vendor Payments

## **Cumulative Vendor Payments in Excess of \$100,000 without Board Review**

	<b>VENDOR NAME</b>	<b>AMOUNT PAID (July 2017 - Dec 2017)</b>	<b>Explanation</b>
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



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT



## **AIR DISTRICT FINANCIAL OVERVIEW**

**Budget and Finance Committee Meeting  
January 24, 2018**

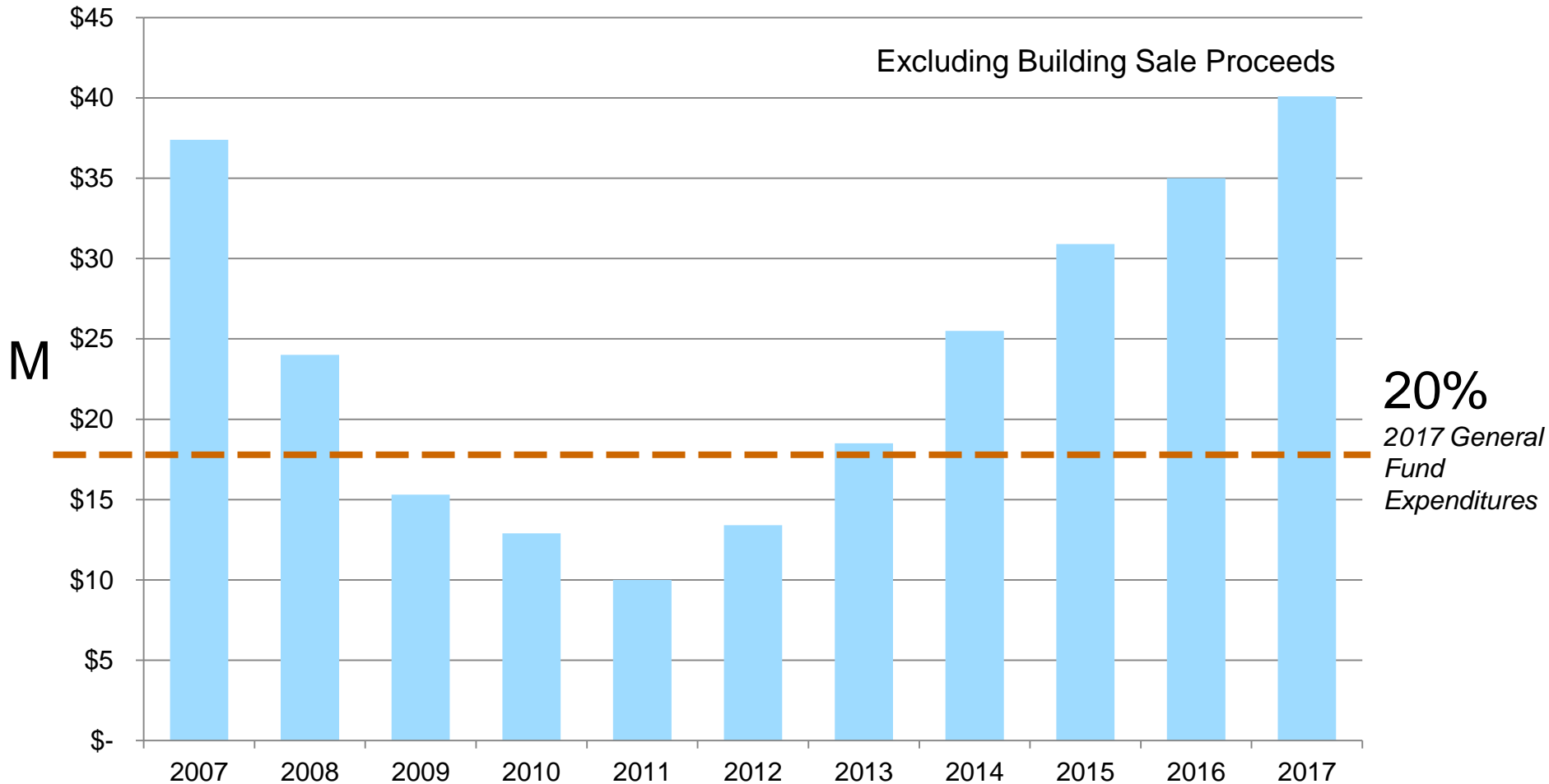
**Jack P. Broadbent  
Executive Officer/APCO**



# CURRENT AND UPCOMING TOPICS

- *January:* Use of Reserves
- *February:* Fees and Retirement Funding
- *March:* First Presentation of FYE 2019 Budget

# USE OF RESERVES DURING DOWNTURN





# CURRENT RESERVES

- Minimum Reserve: 20% of Budget = \$18 M
- General Fund Reserves = \$34 M
- Funds from Ellis Street Sale = \$5 M
- Total Reserves = \$39 M

# USE OF RESERVES

*(Reserves may be expended over a period of years)*

*(Funds not encumbered - could be changed at the Board's discretion)*

<b><u>Probable Reserve Designations for FYE 2019</u></b>	<b><u>(\$K)</u></b>
Subsequent Additional Purchase at Beale Street	4,000
Technology Implementation Office	3,350
Napa/Sonoma Fireplace Replacement Grants	3,000
GHG Abatement Technology Study	1,500
Woodsmoke Grants	1,000
Community Air Pollution Mitigation	500
Woodchipping	150
Workforce Development and Diversity	100
<u>East Bay Real Estate</u>	<u>7,000</u>
<b>TOTAL FYE 2109 (Probable Designations)</b>	<b>20,600</b>
<i><u>Economic Contingency (20% of budget)</u></i>	<i><u>18,000</u></i>
<b>Total</b>	<b>38,600</b>
<b><u>Used from Reserves in FYE 2018 Budget</u></b>	
<i>Clean Air Plan Implementation</i>	<i>4,500</i>
<i>Meteorology Equipment</i>	<i>1,700</i>
<i>Technology Implementation Office</i>	<i>650</i>





# ADDITIONAL BEALE STREET PURCHASE

- Initiated by BAHA
- Original Terms (\$385 / square foot)
- Working on Purchase Sale Agreement



# TECHNOLOGY IMPLEMENTATION OFFICE

- Establish the Air District as a catalyst for innovation in the field of greenhouse gas emissions reduction:
  - ***zero emissions vehicles and smart/connected*** technologies; and
  - ***zero emissions energy generation and efficiency*** technologies
- Requesting \$4 M from reserves to establish five year revolving loan fund
- Seek matching funding from industry & government

An aerial photograph of a town, likely Napa, California, taken during sunset or sunrise. The sky is a mix of orange, pink, and blue, with some clouds. The town below is densely packed with buildings, and the surrounding area appears to be a mix of residential and commercial development. The title 'NAPA, SONOMA FIREPLACE REPLACEMENT' is overlaid in large, bold, blue letters across the top of the image.

# NAPA, SONOMA FIREPLACE REPLACEMENT

- Requesting \$3 M from reserves
- Wood burning fireplaces no longer allowed in new construction
- Help fund alternatives



# WOODSMOKE GRANTS

- Requesting \$1 M from reserves to extend the program
- Additional funds will be sought from Cap and Trade program

# COMMUNITY AIR POLLUTION MITIGATION

- Install air filters in sensitive land use buildings – e.g. schools, community buildings, health clinics
- For existing residential units:
  - Improve building envelope to reduce infiltration
  - Replace old gas appliances
  - Provide stand-alone air filtration units
- Separate sensitive land uses from sources
  - Plant trees and other vegetation
  - Build barriers, like sound walls
  - Create open spaces, parks





# EAST BAY REAL ESTATE

- Replace some of the Air District's rented space
- Needs assessment complete
- Broker examining the market