BAY AREA AIR QUALITY MANAGEMENT DISTRICT

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2011

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

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

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, the schedules of funding progress, and the budgetary comparison information listed as required supplementary information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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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 – Schedule of Expenditures (Schedule) is presented for purposes of additional analysis and is not a required part of the basic financial statements. This Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

February 14, 2012

This discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the accompanying basic financial statements.

A. Financial Highlights

The assets of the District exceeded its liabilities at the close of fiscal year 2010-2011 by $127,195,951 (net assets). Of this amount, $6,992,841 could be used to finance the District's daily operations without legal or legislative constraints (unrestricted assets); $100,165,973 was restricted to specific uses (restricted assets); and $20,037,137 was invested in capital assets. Net assets increased by $1,483,228 from fiscal year 2009-2010.

The District's governmental funds reported a fund balance of $114,267,732. The entire fund balance of the Special Revenue Fund in the amount of $91,849,150 is reserved for air quality grants and projects. The General Fund balance consists of $12,114,159 representing the assigned fund balance with the remaining balance of $10,304,423 restricted, committed or nonspendable. These categories reflect the implementation of GASB 54. Table 1 presents the General Fund detail of fund balances as of June 30, 2011, and June 30, 2010.

Table 1. General Fund Balances as of June 30, 2011, and 2010

Category	General Fund June 30, 2011	General Fund June 30, 2010	Increase/ (Decrease)
Fund Balances:			
Nonspendable:			
Prepaid Expenses	$ 499,436		$ 499,436
Restricted:			
Air Quality Grants and Projects	5,140,654	5,116,277	24,377
Post-Employment Benefits	3,176,169	3,017,738	158,431
Committed:			-
Self-Funded Worker's Compensation	1,000,000	1,000,000	-
Air Quality Projects	488,164		488,164
Assigned:			
Building and Facilities	4,075,756	1,731,690	2,344,066
PERS Super Funding	1,500,000	1,900,000	(400,000)
Post-Employment Benefits	2,000,000		2,000,000
Radio Replacement	75,000	75,000	-
Capital Equipment	1,219,818	-	1,219,818
Air Quality Grants and Projects	3,243,585	6,234,927	(2,991,342)
Contingencies		130,425	(130,425)
Unassigned:		8,105,440	(8,105,440)
Total Fund Balance	**$ 22,418,582**	**$ 27,311,497**	**(4,892,915)**

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.

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 Assets and the Statement of Activities.

The Statement of Net Assets reports all assets held and all liabilities owed by the District on a full accrual basis. The difference between the assets held and the liabilities owed is reported as *Net Assets*. The net assets total is comparable to total stockholder's equity presented on the balance sheet of a private enterprise. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Assets as of June 30, 2011 is presented on Page 12.

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 assets. The Statement of Activities is presented on page 13.

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

B. Overview of the Financial Statements, Continued

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 two governmental funds; the General Fund and the Special Revenue Fund.

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 and total liabilities represents the fund balance. The unassigned portion of fund balance represents the amount available to finance future activities. The District's governmental fund balance sheets can be found on page 14.

The Statement of Revenues, Expenditures and Changes in Fund Balance includes 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 Revenue, Expenditures and Changes in Fund Balance can be found on page 16.

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 Assets is on page 15. 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 17.

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 18 to 33.

B. Overview of the Financial Statements, Continued

Required and Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the pension plan actuarial information, other post-employment benefit (OPEB) liabilities, governmental funds budget comparison schedules, TFCA and Carl Moyer program expenditures, and the California Public Employees Retirement System (PERS) Schedule of Funding Progress on pages 34 to 38.

C. Government-Wide Financial Analysis

The government-wide financial analyses focus on net assets and changes in net assets of the District's governmental activities. Table 2 below shows a condensed Statement of Net Assets as of June 30, 2011 compared to the fiscal year ended June 30, 2010.

Table 2. Statement of Net Assets as of June 30, 2011 and June 30, 2010

	Governmental Activities June 30, 2011	Governmental Activities June 30, 2010	Increase/ (Decrease)
Current & Other Assets	$ 147,059,377	$ 130,382,139	$ 16,677,238
Noncurrent Assets	20,037,137	16,602,647	3,434,490
Total Assets	**167,096,514**	**146,984,786**	**20,111,728**
Current Liabilities	32,169,607	14,950,905	17,218,702
Noncurrent Liabilities	7,730,956	6,321,158	1,409,798
Total Liabilities	**39,900,563**	**21,272,063**	**18,628,500**
Net Assets:			
Invested in Capital Assets	20,037,137	16,602,647	3,434,490
Restricted	100,165,973	96,269,350	3,896,623
Unrestricted	6,992,841	12,840,726	(5,847,885)
Total Net Assets	**$ 127,195,951**	**$ 125,712,723**	**$ 1,483,228**

As noted earlier, total net assets may serve over time as a useful indicator of the District's financial position. At June 30, 2011 the District's assets exceeded its liabilities by $127,195,951, an increase of $1,483,228 over the previous fiscal year.

Restricted net assets are to be used for specific programs and purposes according to legal terms and conditions. The remaining portion of the District's net assets is unrestricted and may be used to meet the District's obligations in carrying out its day-to-day operations.

Table 3 on the following page provides changes in net assets for the fiscal year ending June 30, 2011 compared with the fiscal year ended June 30, 2010.

Table 3. Statement of Activities for Fiscal Years 2010-2011 and 2009-2010

	Governmental Activities FY 2010-11	Governmental Activities FY 2009-10	Dollar Increase / (Decrease)	Percentage Increase / (Decrease)
Revenues:				
TFCA/MSIF DMV Fees	$ 32,388,846	$ 33,068,860	$ (680,014)	-2%
Carl Moyer	6,770,108	18,396,100	(11,625,992)	-63%
Proposition1B/Lower Emissions School Bus ProgramB	6,130,408	15,167,375	(9,036,967)	-60%
Permit Fees	24,385,783	22,768,495	1,617,288	7%
Title V Permit Fees	3,087,921	2,789,762	298,159	11%
State Subvention	1,720,716	1,718,169	2,547	0%
Spare the Air Grant (CMAQ)	1,097,392	1,059,267	38,125	4%
Federal Grants (EPA)	1,839,376	4,055,147	(2,215,771)	-55%
Federal Grants (Homeland Security)	980,686	914,435	66,251	7%
Penalties & Variance Fees	1,798,851	865,385	933,466	108%
Hearing Board Fees	23,945	4,192	19,753	471%
AB 2588 Income	606,249	681,641	(75,392)	-11%
Asbestos Fees	1,894,419	1,687,152	207,267	12%
Interest Revenue	323,043	537,110	(214,067)	-40%
Other Grants	894,100	1,196,694	(302,594)	-25%
AB434 Others	370,028	683,023	(312,995)	-46%
Miscellaneous Revenue	99,045	85,190	13,855	16%
Special Environmental Projects	50,772	10,373	40,399	
County Apportionments	20,856,785	21,444,704	(587,919)	-3%
Total Revenues	**105,318,473**	**127,133,074**	(21,814,601)	-17%
Expenses:				
Salaries and Benefits	48,861,136	49,900,223	(1,039,087)	-2%
Services and Supplies	20,027,333	22,663,423	(2,636,090)	-12%
Program Distributions	34,946,776	68,252,464	(33,305,688)	-49%
Total Expenses	**103,835,245**	**140,816,110**	(36,980,865)	-26%
Change in Net Assets	**1,483,228**	**(13,683,036)**	15,166,264	-111%
Net Assets, Beginning	**125,712,723**	**139,278,529**	**(13,565,806)**	-10%
Net Assets, Ending	**$ 127,195,951**	**$ 125,595,493**	**$ 1,600,458**	1%

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.

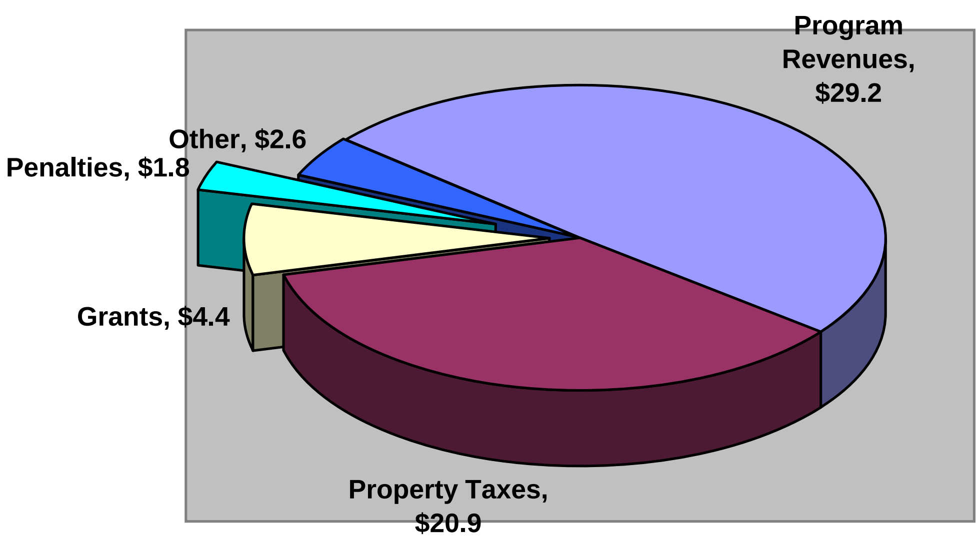
The Statement of Activities presents information showing how the District's net assets changed during the FY 2010-2011. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

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, monitoring air quality, permit review and Special Revenue Fund activities.

D. General Fund Financial Analysis

Figure 1 below provides a pie chart of the District's General Fund revenues for fiscal year 2010-2011. The General Fund received total revenue of $58,891,645 in fiscal year 2010-11, an increase of $1,216,310 over fiscal year 2009-2010. Program Revenues include: Permit, AB2588, Title V, and Asbestos fees. Program revenues were the largest General Fund revenue source in fiscal 2010-2011 ($29.2 million), followed by Property Tax ($20.9 million), Grants ($4.4 million), Penalties ($1.8 million), and Other revenues ($2.6 million).

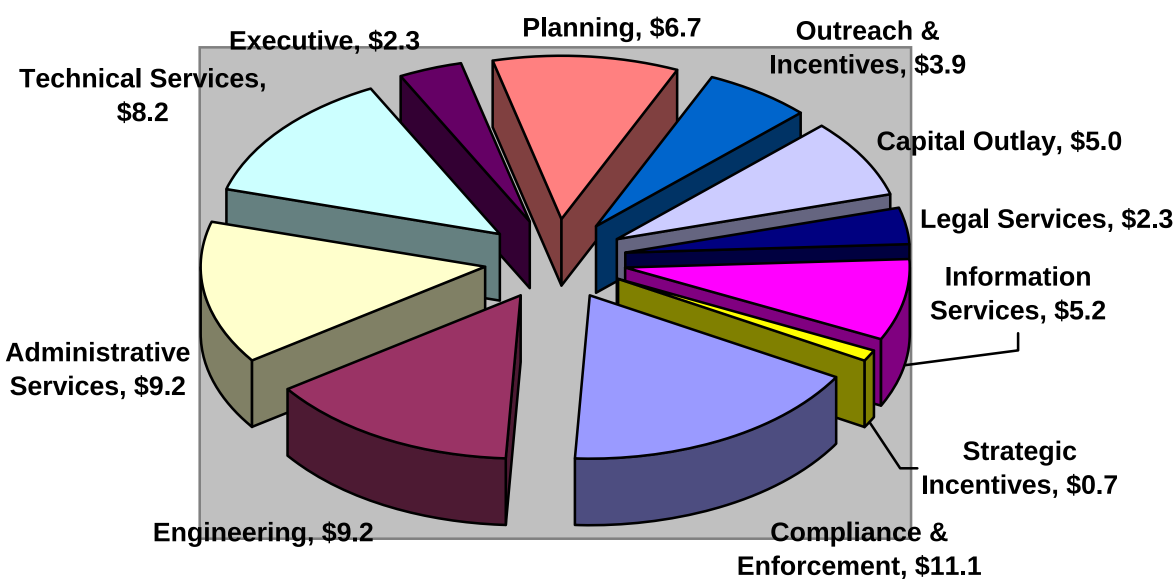
Figure 1. Fiscal Year 2010-11 General Fund Revenues (Figures in Millions of Dollars)



D. General Fund Financial Analysis, Continued

Figure 2 below provides a graph of General Fund expenditures for fiscal year 2010-2011. General Fund expenditures totaled $63,817,831 which is a decrease of $1,028,103 over fiscal year 2009-2010. General Fund expenditures represent the District's general government operating costs categorized into the following operating divisions: Compliance and Enforcement ($11.1 million), Engineering ($9.2 million), Administrative Services ($9.2 million), Information Services ($5.2 million), Technical Services ($8.2 million), Executive ($2.3 million), Planning ($6.7 million), Outreach & Incentives ($3.9 million), Strategic Incentives ($.7 million) and Legal Services ($2.3 million). The District also incurred $5.0 million of Capital Outlay expenditures in fiscal year 2010-11. General Fund expenditures (including transfers in) exceeded revenue by $4,892,915 in fiscal year 2010-2011.

Figure 2. Fiscal Year 2010-11 General Fund Expenditures (Figures in Millions)



Total General Fund revenue increased by $1.2 million or 2.1% compared with the prior fiscal year, primarily due to an increase in Program revenues of $1.3 million, an increase in Penalties of $0.9 million, and a decrease in Property Taxes of $.6 million. General Fund Expenditures decreased by $1.0 million or 1.6% compared to the prior year, primarily from decreases in funding to Information Services of $0.5 million, Technical Services of $0.3 Million and Engineering of $.2 million.

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 $22.4 million. The assigned fund balance was $12.1 million; committed $1.5; restricted $8.3 million; and nonspendable $.5 million. The designations of the fund balance reflect the first year implementation of GASB 54. One measure of the General Fund's liquidity is the comparison of both assigned fund balance and total fund balances to total expenditures. The assigned fund balance represents 18.9% of the total General Fund expenditures, while the total fund balance represents 45.77% of the total fund expenditures.

The FY 2010-2011 adopted budget as compared to the actual expenditures reflects an increase in appropriations of $1.4 million. The changes to the budget were the result of Governing Board actions, and carry over of unspent funds from FY 2009-2010.

E. Capital Assets

As of June 30, 2011 the District's investment in capital assets was $20.0 million net of accumulated depreciation. Capital assets include land, buildings, laboratory equipment, Air monitoring stations, computers, office furniture and District fleet vehicles.

F. Economic Factors and Next Year's Budget

The District receives approximately 35% of its General Fund revenue from property taxes levied in nine Bay Area counties and 45% 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 10% in FY 2010-2011. The District will continue to focus on long term financial planning to ensure the vitality and effectiveness of its programs.

G. 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 David Glasser, Finance Manager at 939 Ellis Street, San Francisco, CA 94109.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 14,118,114
Restricted cash and cash equivalents	122,044,695
Receivables	7,535,214
Due from other governments	2,745,078
Prepaids, deposits and other current assets	616,276
Capital assets:	
Non-depreciable	11,126,622
Depreciable, net	8,910,515
Total capital assets	20,037,137
Total assets	167,096,514
LIABILITIES	
Accounts payable	6,016,629
Accrued payroll	1,626,089
Other current liabilities	66,506
Unearned revenue	24,314,983
Long-term liabilities:	
Due within one year	145,400
Due in more than one year	7,730,956
Total liabilities	39,900,563
NET ASSETS	
Invested in capital assets	20,037,137
Restricted for air quality grants and projects	96,989,804
Restricted for post-employment benefits	3,176,169
Unrestricted net assets	6,992,841
Total net assets	$ 127,195,951

See accompanying notes to financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenues		Net (Expense) Revenue and Change in Net Assets
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental activities:				
Primary government	$ 61,842,195	$ 32,278,256	$ 6,101,954	$ (23,461,985)
California Goods Movement program	6,529,184		6,130,408	(398,776)
TFCA program:				
TFCA distribution	28,693,758		32,758,874	4,065,116
Carl Moyer Program	6,770,108		6,770,108	
Total TFCA program	35,463,866		39,528,982	4,065,116
Total governmental activities	$103,835,245	$ 32,278,256	$ 51,761,344	(19,795,645)
	General revenues:			
	County apportionment			20,856,785
	Investment income not restricted for a specific program			323,043
	Other			99,045
	Total general revenues			21,278,873
	Change in net assets			1,483,228
	Net assets-beginning of year			125,712,723
	Net assets-end of year			$ 127,195,951

BAY AREA AIR QUALITY MANAGEMENT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 14,118,114		$ 14,118,114
Restricted cash and cash equivalents	3,176,169	$ 118,868,526	122,044,695
Receivables	3,023,782	4,511,432	7,535,214
Due from other governments	2,745,078		2,745,078
Due from other funds	3,275,572		3,275,572
Prepaids, deposits and other assets	616,276		616,276
Total assets	$ 26,954,991	$ 123,379,958	$ 150,334,949
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 1,672,772	$ 4,343,857	$ 6,016,629
Accrued payroll	1,626,089		1,626,089
Due to other funds		3,275,572	3,275,572
Other liabilities	66,506		66,506
Deferred revenue	1,171,042	23,911,379	25,082,421
Total liabilities	4,536,409	31,530,808	36,067,217
Fund balances:			
Nonspendable:			
Prepaid expenses	499,436		499,436
Restricted:			
Air quality grants and projects	5,140,654	91,849,150	96,989,804
Postemployment benefits	3,176,169		3,176,169
Committed:			
Self-funded workers' compensation	1,000,000		1,000,000
Air quality projects	488,164		488,164
Assigned:			
PERS funding	1,500,000		1,500,000
Postemployment benefits	2,000,000		2,000,000
Building and facilities	4,075,756		4,075,756
Radio replacement	75,000		75,000
Capital equipment	1,219,818		1,219,818
Air quality grants and projects	3,243,585		3,243,585
Total fund balances	22,418,582	91,849,150	114,267,732
Total liabilities and fund balances	$ 26,954,991	$ 123,379,958	$ 150,334,949

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 ASSETS
JUNE 30, 2011

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

Total fund balances - total governmental funds	$ 114,267,732
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	20,037,137
Other long-term assets (receivables) are not available to pay for current-period expenditures and therefore, are deferred in the governmental funds.	767,438
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(4,179,116)
OPEB obligation	(3,697,240)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 127,195,951

See accompanying notes to financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
TFCA / MSIF DMV fees		$ 32,388,846	$ 32,388,846
Carl Moyer Program		6,770,108	6,770,108
Permit fees	$ 23,618,345		23,618,345
Title V permit fees	3,087,921		3,087,921
Asbestos fees	1,894,419		1,894,419
Penalties and variance fees	1,798,851		1,798,851
Hearing board fees	23,945		23,945
State subvention	1,720,716		1,720,716
AB 434/923 others		370,028	370,028
AB 2588 income	606,249		606,249
Special environmental projects	50,772		50,772
Federal grant - EPA	1,839,376		1,839,376
Federal grant - DHS	980,686		980,686
CMAQ Spare the Air	1,097,392		1,097,392
Other grants	463,784		463,784
Portable equipment registration program (PERP)	430,316		430,316
Interest	323,043		323,043
County apportionment	20,856,785		20,856,785
Prop 1B - GMB		6,130,408	6,130,408
Miscellaneous	99,045		99,045
Total revenues	58,891,645	45,659,390	104,551,035
EXPENDITURES			
General government:			
Program distribution	39,848		39,848
Executive office	2,339,373		2,339,373
Finance and administration	9,211,728		9,211,728
Information systems	5,199,315		5,199,315
Legal services	2,317,626		2,317,626
Outreach and incentives	3,834,618		3,834,618
Compliance and enforcement	11,124,466		11,124,466
Engineering	9,230,846		9,230,846
Planning and research	6,699,572		6,699,572
Technical services	8,162,127		8,162,127
Strategic incentives division	687,218		687,218
TFCA/MSIF & CMP Programs:			
Program distribution		29,628,869	29,628,869
Smoking vehicle		571,474	571,474
Intermittent control		630,568	630,568
TFCA administration		1,075,425	1,075,425
Vehicle buy-back		3,109,870	3,109,870
Mobile source incentive		422,354	422,354
California Goods Movement Program:			
Grant administration		1,195,685	1,195,685
Truck Program/LESBP		5,278,059	5,278,059
Capital outlay	4,971,094		4,971,094
Total expenditures	63,817,831	41,912,304	105,730,135
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,926,186)	3,747,086	(1,179,100)
OTHER FINANCING SOURCES (USES)			
Transfers in	33,271		33,271
Transfers (out)		(33,271)	(33,271)
Total other financing source (uses)	33,271	(33,271)	
NET CHANGE IN FUND BALANCES	(4,892,915)	3,713,815	(1,179,100)
BEGINNING FUND BALANCES	27,311,497	88,135,335	115,446,832
ENDING FUND BALANCES	$ 22,418,582	$ 91,849,150	$ 114,267,732

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, 2011

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$	(1,179,100)
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		4,971,094
Depreciation expense is deducted from fund balance		(1,518,818)
Loss on disposal of capital assets is deducted from fund balance		(17,786)
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		(123,318)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		767,438
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):		
Compensated absences		(48,409)
OPEB obligation		(1,367,873)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$	1,483,228

See accompanying notes to financial statements.

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. TFCA funding may only be used to fund eligible projects that reduce motor vehicle emissions and support the implementation of the transportation and mobile source control measures in the 1994 Clean Air Plan. All projects must fall within the categories listed in State Law (Health and Safety Code Section 44241).

The Health and Safety Code requires the District to pass-through no less than 40% (forty percent) of the TFCA revenues raised within a particular county to that county's eligible, designated Program Manager. The remaining 60% (sixty percent) is for Regional Fund grants and is being allocated to projects on a competitive basis. Projects are evaluated using the District's Board adopted evaluation and scoring criteria. The District may receive reimbursement from TFCA funds, not to exceed 5% (five percent) of total funds, for administration of the program. TFCA activities are accounted for in the District's Special Revenue Fund.

The District includes seven counties: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, and Santa Clara; and portions of two other counties: Southwestern Solano and Southern Sonoma. The District is governed by a 22 (twenty-two) member Board of Directors that includes representatives from all of the above counties.

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

B. Basis of Presentation

Government-wide Statements - The Statement of Net Assets 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.

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. Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to 10% (ten percent) of the total. 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.

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. 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.

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. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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.

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

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. Deferred revenue is recognized when resources are received or recognized as receivable before the time requirements are met. 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. Deferred revenue is recognized when the recipient is required to use the resources in the following year, thus resources provided before that period should be recognized as deferred. 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.

Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Deferred revenue also arises when the government receives monies before it has a legal claim to them, including grant monies received prior to incurring qualifying expenditures. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been offset with deferred revenue.

Certain indirect costs are included in program expenses reported for individual functions and activities.

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 Assets. District employees are allowed to accrue no more than four hundred and sixty hours of vacation as of the end of the fiscal 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.

F. 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.

G. 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, 2011, management deemed $206,948 of outstanding receivables to be uncollectible.

H. 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	5-7 Years

I. Net Assets / Fund Balance

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

Invested in Capital Assets - This category groups all capital assets into one component of net assets. 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 Assets - 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 Assets - This category represents net assets 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 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. The District has prepaid expenses that meet the definition of nonspendable because the asset is not in a spendable form.

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.

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

J. Transfers Between Funds

With Board approval, resources are transferred from one fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Interfund transfers for the year ended June 30, 2011 were as follows:

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Special Revenue Fund	$ 33,271

K. Current Year GASB Implementation

For the year ended June 30, 2011, the District implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied amongst governmental entities and to clarify existing governmental fund type definitions. GASB 54 provides for fund balance classifications such as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

2. CASH AND INVESTMENTS

Cash and Investments

The District pools cash from all 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 and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	$ 14,118,114
Restricted cash and cash equivalents	122,044,695
Total cash and cash equivalents	$ 136,162,809

Cash and cash equivalents as of June 30, 2011, consist of the following:

Cash and investments in San Mateo Pooled Fund Investment Program	$ 132,986,640
Cash and investments with fiscal agent	3,176,169
Total cash and cash equivalents	$ 136,162,809

Cash in County Treasury

The District is a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code under the oversight of the Treasury of the County of San Mateo (the Treasury). The Treasury is authorized to deposit cash and invest excess funds by

California Government Code Section 53648 et seq. The Treasury is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes, or bonds; the State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

The District earns interest on a proportionate basis with all other investors. Interest is credited directly to the District's account on a quarterly basis. The pooled fund is collateralized at 102% by San Mateo County, but not specifically identified to any one depositor or in the District's name.

The District reports its investment in the County Pool at the fair value amount provided by the County. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

Investments Authorized by the District's Investment Policy

The table below identifies the investment types authorized for the District by the California Government Code Section 53601 or the Treasury investment policy, which was adopted by the District, whichever is more restrictive. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government Agency / Sponsored Enterprise Securities	7 years	100%	40%
U.S. Treasury Obligations	7 years	100%	100%
Asset-Backed Securities	5 years	20%	5%
Banker's Acceptances	180 days	15%	5%
Commercial Paper	270 days	40%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Collateralized Certificates of Deposit	1 year	15%	5%
Repurchase Agreements	92 days	100%	100%
Mutual Funds	N/A	10%	5%
Corporate Bonds, Medium-Term Notes & Covered Bonds	5 years	30%	5%
Local Agency Investment Funds (LAIF)	N/A	Up to state limit	None

Derivative Investments

The District did not directly enter into any derivative investments, and the County Pool was not holding derivative investments at June 30, 2011.

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, and collateralized certificates of deposit to the rating of A1 or better by Standard & Poor's, or P-1 or better by Moody's Investors Service. Corporate securities are required to have a rating of AA or better by Standard & Poor's, or A or better for Moody's Investors Service. Asset-backed securities, repurchase agreements, U.S. government securities, and U.S. Treasury obligations are required to have a rating of AAA or higher by both Standard & Poor's and Moody's Investors Service.

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 values to changes in market interest rates.

The District's cash and investments were categorized as follows at June 30, 2011:

	Ratings		Maturities	Fair Value
	Moody's	S&P		
AIG fixed annuity	Not Rated	Not Rated	Current	$ 3,176,169
Investments in San Mateo Pooled Fund Investment Program	Aa1	AA+	1.5 years	132,986,640
Total cash and investments				$ 136,162,809

3. RECEIVABLES

At June 30, 2011, the District had the following accounts receivable:

General Fund:		
Permit and other fees	$ 2,055,721	
County apportionments	747,522	
Interest	54,202	
Other	166,337	
Total General Fund		$ 3,023,782
Special Revenue Fund:		
TFCA DMV fees	2,753,607	
MSIF DMV fees	1,376,803	
Interest	381,022	
Total Special Revenue Fund		4,511,432
Total Accounts Receivable		$ 7,535,214

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, 2011, the General Fund was owed $3,275,572 by the Special Revenue Fund.

5. CAPITAL ASSETS

The District's capital assets were comprised of the following at June 30, 2011:

	Balance at 7/1/2010	Additions	Deletions	Balance at 6/30/2011
Non-depreciable assets:				
Land	$ 214,608			$ 214,608
Construction in progress	7,450,976	$ 3,461,038		10,912,014
Total non-depreciable assets	7,665,584	3,461,038		11,126,622
Depreciable assets:				
Building and grounds	9,351,027	8,670		9,359,697
Leasehold improvements	2,847,646			2,847,646
Computers and network equipment	4,531,307	682,743	$ (50,373)	5,163,677
Motorized equipment	1,482,872		(163,312)	1,319,560
Lab and monitoring equipment	6,752,378	359,225	(136,000)	6,975,603
Furniture and other equipment	1,216,246	459,418	(6,036)	1,669,628
Total depreciable assets	26,181,476	1,510,056	(355,721)	27,335,811
Accumulated depreciation:				
Building and grounds	6,262,571	293,959		6,556,530
Leasehold improvements	2,680,562	2,391		2,682,953
Computers and network equipment	1,442,161	404,646	(47,855)	1,798,952
Motorized equipment	1,322,004	45,061	(155,146)	1,211,919
Lab and monitoring equipment	4,762,103	548,151	(129,200)	5,181,054
Furniture and other equipment	775,012	224,610	(5,734)	993,888
Total accumulated depreciation	17,244,413	1,518,818	(337,935)	18,425,296
Total depreciable assets, net	8,937,063	(8,762)	(17,786)	8,910,515
Total capital assets, net	$ 16,602,647	$ 3,452,276	$ (17,786)	$ 20,037,137

Depreciation expense by function for capital assets for the year ended June 30, 2011, is as follows:

Primary Government:	
Executive office	$ 30,279
Administrative services	232,749
Legal services	22,332
Public information and outreach	9,961
Compliance enforcement	232,700
Engineering	91,913
Planning	78,450
Technical services	581,176
Information services	239,258
Total depreciation expense	$ 1,518,818

6. DEFERRED REVENUE

Under both the accrual and modified accrual basis of accounting, revenues are recognized only when earned. Thus, the government-wide statement of net assets and governmental funds defer revenue recognition for resources that have been received at year-end, but not yet earned. Assets recognized before the earning process is complete are offset by a corresponding liability as unearned revenues. 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. Thus, governmental funds defer revenue recognition for revenues not considered available to liquidate liabilities of the current period.

At June 30, 2011, components of deferred and unearned revenues reported were as follows:

	Deferred Revenue		
	Unearned	**Unavailable**	**Total**
General Fund:			
Permits and licenses		$ 767,437	$ 767,437
Carl Moyer Program Administration	$ 403,605		403,605
Subtotal General Fund	403,605	767,437	1,171,042
Special Revenue Fund			
CARB/GMB - Lower Emission School Bus Program	6,252,237		6,252,237
GMB – On-Road Projects	12,647,331		12,647,331
BART	149,717		149,717
Shore Power Projects	443,299		443,299
Carl Moyer Program	4,332,603		4,332,603
Other	86,192		86,192
Subtotal Special Revenue Fund	23,911,379		23,911,379
Total unearned and deferred revenue	$ 24,314,984	$ 767,437	$ 25,082,421

7. LONG-TERM LIABILITIES

A schedule of changes in general long-term debt for the year ended June 30, 2011, is shown below:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year	Non Current
Governmental Activities						
Compensated Absences	$ 4,158,938	$ 315,356	$ (295,178)	$ 4,179,116	$ 145,400	$ 4,033,716
OPEB	2,329,367	4,837,000	(3,469,127)	3,697,240		3,697,240
Total	$ 6,488,305	$ 5,152,356	$ (3,764,305)	$ 7,876,356	$ 145,400	$ 7,730,956

The long-term portion of compensated absences is liquidated by the General Fund and the long-term portion of OPEB is liquidated by both the General Fund and the Special Revenue Fund.

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:

Year ended June 30,	
2012	$ 1,028,863
2013	981,408
2014	862,651
2015	804,834
2016	754,011
2017 - 2021	4,152,361
2022 – 2026	4,275,601
2027 - 2031	4,399,184
	$ 17,258,913

Air-monitoring station leases are renewable with minor escalations.

Rental expense for the non-cancelable lease agreements for the year ended June 30, 2011, was $1,025,705.

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 to 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, 2011, is as follows:

Alameda	$ 3,718,833
Contra Costa	2,508,791
Marin	1,075,466
Napa	744,385
Santa Clara	5,334,102
San Francisco	3,147,052
San Mateo	2,784,365
Solano	504,830
Sonoma	1,038,961
Total county apportionment revenue	$ 20,856,785

10. PENSION PLAN

All District employees are eligible to participate in a pension plan offered by the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined-benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CalPERS provides retirement and disability retirement benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the CalPERS Miscellaneous Employee "2% at 55" Plan (Plan). Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full-time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS, and the District must contribute the amounts specified by CalPERS. The District also contributes employees' contributions to CalPERS. The Plan's provisions and benefits in effect at June 30, 2011, are summarized as follows:

Benefit vesting schedule	5 years of service
Benefit payments	Monthly for life
Retirement age	55
Monthly benefits, as % of annual salary	1.426% - 2.418%
Required employee contribution rates	6.989%
Required employer contribution rates	9.164%

CalPERS determines contribution requirements using a modification of the Entry Age Normal Cost Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The District uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions. The required contributions and related rates for the past three years ended June 30 were as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	$ 5,344,223	100%	0
6/30/2010	$ 5,112,411	100%	0
6/30/2011	$ 5,069,670	100%	0

Funded Status and Funding Progress – The funded status of the plan as of the most recent valuation date of June 30, 2010, was as follows:

Actuarial accrued liability (AAL)	$ 195,962,333
Actuarial value of plan assets	174,434,353
Unfunded actuarial accrued liability (UAAL)	$ 21,527,980
Funded ratio (actuarial value of plan assets/AAL)	89.0%
Covered payroll (active plan members)	$ 31,962,067
UAAL as a percentage of payroll	67.4%

CalPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over 20 (twenty) years. Investment gains and losses are accumulated as they are realized and amortized over a rolling 30 (thirty) year period. The schedule of funding progress included in the required supplemental information presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits

Audited annual financial statements and ten year trend information are available from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

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

Funding Policy – The District funds on a pay-as-you-go basis with additional discretionary funding payments as approved by the Board. The District paid health care and life insurance benefit contributions based on when insurance premium payments were made, which were $1,469,127 for the year ended June 30, 2011. The additional discretionary funding payment approved by the Board for the year ended June 30, 2011, was $2,000,000. During the year ended June 30, 2011, one hundred and sixty-seven (167) retirees participated in the health insurance plan, one hundred and fifty-one (151) retirees participated in the dental plan, one hundred and twenty-one (121) retirees participated in the vision plan, and one hundred and thirty-eight (138) 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 January 1, 2010, actuarial valuation. The ARC rate was 15.2% of annual covered payroll. For the year ended June 30, 2011, the District's annual other postemployment benefit cost (expense) is $4,837,000. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation to the plan:

Annual required contribution	$ 4,837,000
Interest on net OPEB obligation	
Annual OPEB cost (expense)	4,837,000
Contributions made	(3,469,127)
Increase in net OPEB obligation	1,367,873
Net OPEB obligation-beginning of year	2,329,367
Net OPEB obligation-end of year	$ 3,697,240

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, 2011, and the two preceding years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	$ 5,112,000	92.0%	$ 420,737
6/30/10	$ 5,278,000	63.8%	$ 2,329,367
6/30/11	$ 4,837,000	71.7%	$ 3,697,240

Funded Status and Funding Progress – The funded status of the plan as of the most recent actuary valuation date, June 30, 2011, was as follows:

Actuarial accrued liability (AAL)	$ 53,436,000
Actuarial value of plan assets	12,450,000
Unfunded actuarial accrued liability (UAAL)	$ 40,986,000
Funded ratio (actuarial value of plan assets/AAL)	23.3%
Covered payroll (active plan members)	$ 31,826,000
UAAL as a percentage of payroll	128.8%

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. The schedule of funding progress included in the required supplemental information presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

In the June 30, 2011, actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a 7.26% investment rate of return (net of administrative expenses), an annual medical cost trend rate of 5%, dental and vision trend rate of 3%, Medicare Part B trend rate of $115.40, 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 $12,450,000. The plan's unfunded actuarial accrued liability is being amortized using the level percentage of pay method over 20 (twenty) years with 17 (seventeen) years remaining as of June 30, 2011.

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 $5,000 deductible for general and special property liability with limits of $10 million and $350 million, respectively. The District has a $400,000 deductible for workers' compensation with a $1 million limit. There have been no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the District's commercial insurance coverages in any of the past three years.

As of June 30, 2011, 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

SCHEDULES OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011

PENSION PLAN

Actuarial Valuation Date	Actuarial Asset Value (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2008	$157,409,271	$166,446,003	$ 9,036,732	94.6%	$29,695,491	30.4%
6/30/2009	165,731,347	183,968,592	18,237,245	90.1%	30,918,810	59.0%
6/30/2010	174,434,353	195,962,333	21,527,980	89.0%	31,962,067	67.4%

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Actuarial Valuation Date	Actuarial Asset Value (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	$ 3,474,247	$ 48,377,000	$ 44,902,753	7.2%	$31,823,042	141.1%
1/1/2010	7,354,000	46,760,000	39,406,000	15.7%	31,826,000	123.8%
6/30/2011	12,450,000	53,436,000	40,986,000	23.3%	31,826,000	128.8%

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, 2011

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
REVENUES				
Permit fees	$ 24,856,000	$ 24,856,000	$ 23,618,345	$ (1,237,655)
Title V permit fees	3,318,000	3,318,000	3,087,921	(230,079)
Asbestos fees	1,582,000	1,582,000	1,894,419	312,419
Penalties and variance fees	1,500,000	1,500,000	1,798,851	298,851
Hearing board fees	22,000	22,000	23,945	1,945
State subvention	1,718,169	1,718,169	1,720,716	2,547
AB 2588 income	676,000	676,000	606,249	(69,751)
Special environmental projects		4,411,571	50,772	(4,360,799)
Federal grant -EPA	1,825,867	2,025,867	1,839,376	(186,491)
Federal grant - DHS	1,410,857	1,410,857	980,686	(430,171)
CMAQ Spare the Air	1,190,805	1,190,805	1,097,392	(93,413)
Other grants	588,081	588,081	463,784	(124,297)
Portable equipment registration program (PERP)	350,000	350,000	430,316	80,316
Interest	275,598	275,598	323,043	47,445
County apportionment	21,018,016	21,018,016	20,856,785	(161,231)
Miscellaneous	100,000	100,000	99,045	(955)
Total revenues	60,431,393	65,042,964	58,891,645	(6,151,319)
EXPENDITURES				
Executive office	2,551,450	2,396,715	2,339,373	57,342
Finance and administration	8,881,877	9,280,997	9,211,728	69,269
Information systems	4,621,977	5,142,077	5,199,315	(57,238)
Legal services	2,435,385	2,438,287	2,317,626	120,661
Outreach and incentives	4,439,988	5,206,343	3,834,618	1,371,725
Compliance and enforcement	11,232,542	11,186,009	11,124,466	61,543
Engineering	9,486,569	9,617,399	9,230,846	386,553
Planning and research	6,749,385	7,672,819	6,699,572	973,247
Technical services	8,625,757	9,566,925	8,162,127	1,404,798
Program distribution		4,411,571	39,848	4,371,723
Strategic incentives division	1,010,926	1,044,926	687,218	357,708
Total current expenditures	60,035,856	67,964,068	58,846,737	9,117,331
Capital outlay	2,392,457	4,271,094	4,971,094	(700,000)
Total expenditures	62,428,313	72,235,162	63,817,831	8,417,331
DEFICIENCY OF REVENUES OVER EXPENDITURES	(1,996,920)	(7,192,198)	(4,926,186)	2,266,012
OTHER FINANCING SOURCES				
Transfers in			33,271	33,271
Total other financing sources			33,271	33,271
NET CHANGE IN FUND BALANCE	$ (1,996,920)	$ (7,192,198)	(4,892,915)	$ 2,299,283
BEGINNING FUND BALANCE			27,311,497	
ENDING FUND BALANCE			$ 22,418,582	

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, 2011

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Positive (Negative)
REVENUES				
TFCA/MSIF DMV fee	$ 33,893,219	$ 54,742,057	$ 32,388,846	$ (22,353,211)
Carl Moyer Program	10,256,628	10,256,628	6,770,108	(3,486,520)
AB 434/923 others	479,890	479,891	370,028	(109,863)
Prop 1B - GMB	2,494,316	16,744,743	6,130,408	(10,614,335)
Total revenues	47,124,053	82,223,319	45,659,390	(36,563,929)
EXPENDITURES				
TFCA/MSIF & CMP Programs:				
Program distribution	35,011,858	54,658,788	29,628,869	25,029,919
Smoking vehicle	1,050,751	1,058,050	571,474	486,576
Intermittent control	1,156,216	1,205,109	630,568	574,541
TFCA administration	1,366,474	1,491,148	1,075,425	415,723
Vehicle buy-back	5,619,434	6,616,330	3,109,870	3,506,460
Mobile source incentive	425,004	449,151	422,354	26,797
California Goods Movement Program:				
Grant administration	20,796	11,109	1,195,685	(1,184,576)
Truck Program/LESBP	2,473,520	16,733,634	5,278,059	11,455,575
Total expenditures	47,124,053	82,223,319	41,912,304	40,311,015
EXCESS OF REVENUES OVER EXPENDITURES			3,747,086	3,747,086
OTHER FINANCING USES				
Transfers out			(33,271)	(33,271)
Total other financing uses			(33,271)	(33,271)
NET CHANGE IN FUND BALANCE	$	$	3,713,815	$ 3,713,815
BEGINNING FUND BALANCE			88,135,335	
ENDING FUND BALANCE			$ 91,849,150	

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). 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.

Encumbrances

Encumbrances represent commitments related to goods or services that were unspent at year end. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the District's governmental fund types. Encumbrances outstanding at year-end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM, MOBILE SOURCE INCENTIVE PROGRAM, & CARL MOYER PROGRAM
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2011

Programs	Salaries and Benefits	Services and Supplies	Program Distribution	Total
Program distribution			$ 29,628,869	$ 29,628,869
Smoking vehicle	$ 250,147	$ 321,327		571,474
Intermittent control	322,586	307,982		630,568
TFCA administration	937,664	137,761		1,075,425
Vehicle buy back	33,591	3,076,279		3,109,870
Mobile source incentive	363,417	58,937		422,354
Total expenditures	$ 1,907,405	$ 3,902,286	$ 29,628,869	$ 35,438,560