

**BAY AREA AIR QUALITY
MANAGEMENT DISTRICT**

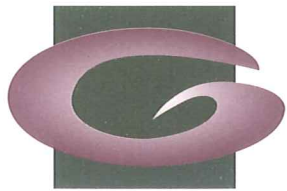
**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S
REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2012**

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

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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, 2012, 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, 2012, 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 December 13, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information section, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to

Management's Discussion and Analysis and the Required Supplementary Information section in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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



GILBERT ASSOCIATES, INC.
Sacramento, California

December 13, 2012

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 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, 2012. 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 2011-12 by \$140,695,454 (net assets). Of this amount, \$6,775,410 could be used to finance the District's daily operations without legal or legislative constraints (unrestricted assets); \$112,098,264 was restricted to specific uses (restricted assets); and \$21,821,780 was invested in capital assets. Net assets increased by \$13,499,503 from fiscal year 2010-11.

The District's governmental funds reported a fund balance of \$128,475,474. The entire fund balance of the Special Revenue Fund in the amount of \$103,695,868 is reserved for air quality grants and projects. The General Fund balance consists of \$11,778,465 representing the assigned fund balance, \$3,548,009 unassigned, and the remaining balance of \$9,453,132 restricted, committed or nonspendable. Table 1 presents the General Fund detail of fund balances as of June 30, 2012, and June 30, 2011.

Table 1. General Fund Balances as of June 30, 2012, and 2011

Category	General Fund June 30, 2012	General Fund June 30, 2011	Increase/ (Decrease)
Fund Balances:			
Nonspendable:			
Prepaid Expenses	\$ 50,736	\$ 499,436	\$ (448,700)
Restricted:			
Air Quality Grants and Projects	5,059,478	5,140,654	(81,176)
Post-Employment Benefits	3,342,918	3,176,169	166,749
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	4,075,756	-
PERS Funding	1,500,000	1,500,000	-
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	2,907,891	3,243,585	(335,694)
Unassigned:	3,548,009	-	3,548,009
Total Fund Balance	<u>\$ 24,779,606</u>	<u>\$ 22,418,582</u>	<u>\$ 2,361,024</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012 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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

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

The Statement of Revenues, Expenditures and Changes in Fund Balance include only revenues and expenditures that were collected in cash or paid with cash during the fiscal year or very shortly after the end of the fiscal year. The governmental funds Statements of 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 34.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

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 35 to 39.

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, 2012 compared to the fiscal year ended June 30, 2011.

Table 2. Statement of Net Assets as of June 30, 2012 and June 30, 2011

	Governmental Activities June 30, 2012	Governmental Activities June 30, 2011	Increase/ (Decrease)
Current & Other Assets	\$ 183,074,088	\$ 147,059,377	\$ 36,014,711
Capital Assets	21,821,780	20,037,137	1,784,643
Total Assets	204,895,868	167,096,514	37,799,354
Current Liabilities	56,475,805	32,169,607	24,306,198
Noncurrent Liabilities	7,724,609	7,730,956	(6,347)
Total Liabilities	64,200,414	39,900,563	24,299,851
Net Assets:			
Invested in Capital Assets	21,821,780	20,037,137	1,784,643
Restricted	112,098,264	100,165,973	11,932,291
Unrestricted	6,775,410	6,992,841	(217,431)
Total Net Assets	\$ 140,695,454	\$ 127,195,951	\$ 13,499,503

As noted earlier, total net assets may serve over time as a useful indicator of the District's financial position. At June 30, 2012 the District's assets exceeded its liabilities by \$140,695,454, an increase of \$13,499,503 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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

C. Government-Wide Financial Analysis, Continued

Table 3 below provides changes in net assets for the fiscal year ending June 30, 2012 compared with the fiscal year ended June 30, 2011.

Table 3. Statement of Activities for Fiscal Years 2011-12 and 2010-11

	Governmental Activities <u>FY 2011-12</u>	Governmental Activities <u>FY 2010-11</u>	Dollar Increase / (Decrease)	Percentage Increase / (Decrease)
Revenues:				
TFCA/MSIF DMV Fees	\$ 36,445,874	\$ 32,388,846	\$ 4,057,028	13%
Carl Moyer	5,057,518	6,770,108	(1,712,590)	-25%
California Goods Movement Revenue	15,927,132	6,130,408	9,796,724	160%
Other Grants	100,820	-	100,820	
Permit Fees	24,657,585	24,385,783	271,802	1%
Title V Permit Fees	3,675,922	3,087,921	588,001	19%
State Subvention	1,717,061	1,720,716	(3,655)	0%
Spare the Air Grant (CMAQ)	529,125	1,097,392	(568,267)	-52%
Federal Grants (EPA)	2,677,588	1,839,376	838,212	46%
Federal Grants (Homeland Security)	1,066,469	980,686	85,783	9%
Penalties & Variance Fees	2,271,025	1,798,851	472,174	26%
Hearing Board Fees	31,331	23,945	7,386	31%
AB 2588 Income	570,853	606,249	(35,396)	-6%
Asbestos Fees	2,187,704	1,894,419	293,285	15%
Interest Revenue	275,688	323,043	(47,355)	-15%
Other Grants	1,080,086	894,100	185,986	21%
AB434 Others	691,177	370,028	321,149	87%
Miscellaneous Revenue	16,844	99,045	(82,201)	-83%
Special Environmental Projects	43,410	50,772	(7,362)	-15%
County Apportionments	21,180,149	20,856,785	323,364	2%
Total Revenues	<u>120,203,361</u>	<u>105,318,473</u>	<u>14,884,888</u>	14%
Expenses:				
General Government	57,230,285	56,871,101	359,184	1%
TFCA/MSIF, CMP, & Other programs	30,180,968	35,463,866	(5,282,898)	-15%
California Goods Movement Program	16,283,233	6,529,184	9,754,049	149%
Capital Outlay	3,448,530	4,971,094	(1,522,564)	-31%
Total Expenses	<u>107,143,016</u>	<u>103,835,245</u>	<u>3,307,771</u>	3%
Change in Net Assets before				
Extraordinary Item	13,060,345	1,483,228	11,577,117	781%
Recovery of Lehman Brothers loss	439,158	-	439,158	
Change in Net Assets	13,499,503	1,483,228	12,016,275	810%
Net Assets Beginning	<u>127,195,951</u>	<u>125,712,723</u>	<u>1,483,228</u>	1%
Net Assets, Ending	<u>\$ 140,695,454</u>	<u>\$ 127,195,951</u>	<u>\$ 13,499,503</u>	11%

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

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 2011-2012. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

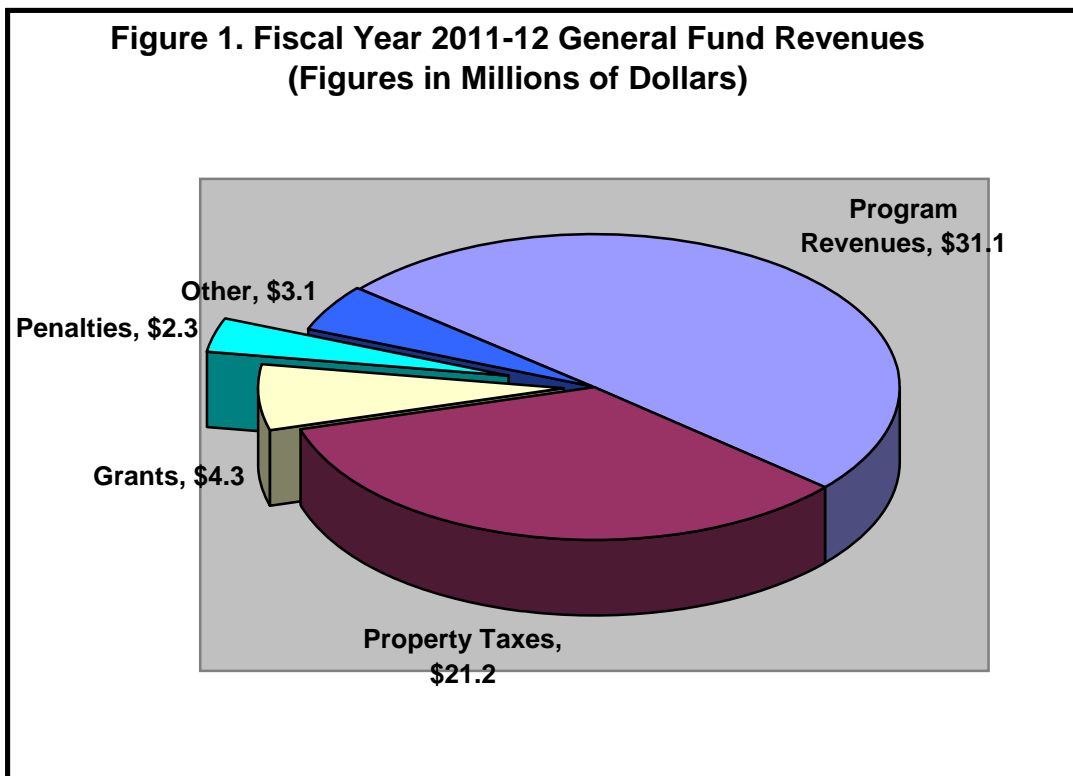
Governmental functions of the District are predominately supported by fees, property taxes, subvention, grants, and penalties and settlements. The penalties and settlements are one-time revenues which are over and above the regular revenues directly related to the programs. The primary governmental activities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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

D. General Fund Financial Analysis

Figure 1 below provides a pie chart of the District's General Fund revenues for fiscal year 2011-2012. The General Fund received total revenue of \$61,988,484 in fiscal year 2011-12, an increase of \$3,096,839 over fiscal year 2010-11. Program Revenues include: Permit, AB2588, Title V, and Asbestos fees. Program revenues were the largest General Fund revenue source in fiscal 2011-12 (\$31.1 million), followed by Property Tax (\$21.2 million), Grants (\$4.3 million), Penalties (\$2.3 million), and Other revenues (\$3.1 million).



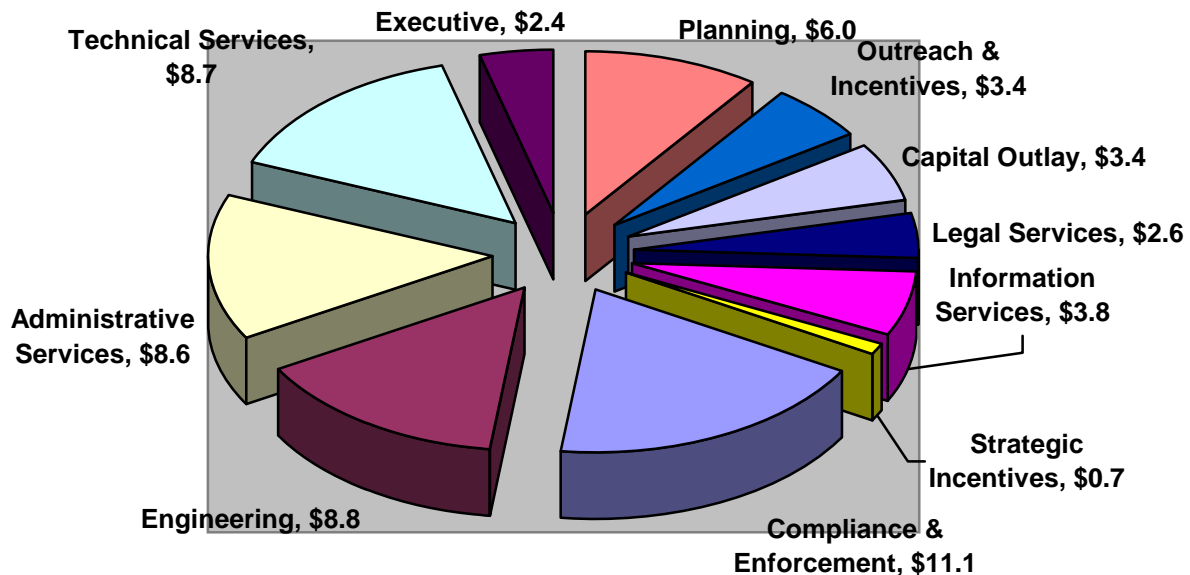
BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

D. General Fund Financial Analysis, Continued

Figure 2 below provides a graph of General Fund expenditures for fiscal year 2011-12. General Fund expenditures totaled \$60,123,789 which is a decrease of \$3,694,042 over fiscal year 2010-11. General Fund expenditures represent the District's general government operating costs categorized into the following operating divisions: Compliance and Enforcement (\$11.1 million), Engineering (\$8.8 million), Administrative Services (\$8.6 million), Information Services (\$3.8 million), Technical Services (\$8.7 million), Executive (\$2.4 million), Planning (\$6.0 million), Outreach & Incentives (\$3.4 million), Strategic Incentives (\$0.7 million) and Legal Services (\$2.6 million). The District also incurred (\$3.4 million) of Capital Outlay expenditures in fiscal year 2011-12. General Fund revenue exceeded expenditures by \$1,864,695 in fiscal year 2011-12.

Figure 2. Fiscal Year 2011-12 General Fund Expenditures (Figures in Millions)



Total General Fund revenue increased by \$3.1 million or 5.3% compared with the prior fiscal year, primarily due to an increase in Program revenues of \$1.9 million, an increase in Penalties of \$0.5 million, and an increase in Property Taxes of \$0.3 million. General Fund Expenditures decreased by \$3.7 million or (5.8)% compared to the prior year, primarily from decreases in funding to Information Services of \$1.4 million, Capital Outlay of \$1.6 Million and Administrative Services of \$0.6 million.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

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 \$24.8 million. The assigned fund balance was \$11.8 million, committed \$1.0 million, restricted \$8.4 million, and nonspendable \$0.05 million. One measure of the General Fund's liquidity is the comparison of both assigned fund and total fund balances to total expenditures. The assigned fund balance represents 19.6% of the total General Fund expenditures, while the total fund balance represents 41.2% of the total fund expenditures.

The FY 11-12 adopted budget as compared to the actual expenditures reflects a decrease in appropriations of \$1.0 million. The changes to the budget were the result of Governing Board actions, and carryover of unspent funds from FY 2010-11.

E. Capital Assets

As of June 30, 2012 the District's investment in capital assets was \$21.8 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 34% of its General Fund revenue from property taxes levied in nine Bay Area counties and 50% 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 4.6% in FY 2011-12. 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, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 15,816,674
Restricted cash and cash equivalents	154,503,254
Receivables	9,627,392
Due from other governments	2,959,192
Prepays, deposits and other current assets	167,576
Capital assets:	
Non-depreciable	10,256,576
Depreciable, net	11,565,204
Total capital assets	<u>21,821,780</u>
Total assets	<u>204,895,868</u>
LIABILITIES	
Accounts payable	1,647,964
Accrued payroll	1,513,243
Other current liabilities	62,854
Unearned revenue	50,683,094
Long-term liabilities:	
Due within one year	2,568,650
Due in more than one year	<u>7,724,609</u>
Total liabilities	<u>64,200,414</u>
NET ASSETS	
Invested in capital assets	21,821,780
Restricted for air quality grants and projects	108,755,346
Restricted for post-employment benefits	3,342,918
Unrestricted net assets	<u>6,775,410</u>
Total net assets	<u>\$ 140,695,454</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Primary government	\$ 60,678,815	\$ 33,923,601	\$ 6,584,558	\$ (20,170,656)
California Goods Movement program	<u>16,283,233</u>		<u>15,927,132</u>	<u>(356,101)</u>
TFCA/MSIF, CMP, & other programs:				
TFCA/MSIF & other program distribution	25,123,450		37,237,871	12,114,421
Carl Moyer Program	<u>5,057,518</u>		<u>5,057,518</u>	
Total TFCA/MSIF, CMP, & other programs	<u>30,180,968</u>		<u>42,295,389</u>	<u>12,114,421</u>
Total governmental activities	<u>\$ 107,143,016</u>	<u>\$ 33,923,601</u>	<u>\$ 64,807,079</u>	<u>(8,412,336)</u>
General revenues:				
County apportionment				21,180,149
Investment income not restricted for a specific program				275,688
Other				<u>16,844</u>
Total general revenues				<u>21,472,681</u>
Change in net assets before extraordinary item				13,060,345
Extraordinary item:				
Recovery of Lehman Brothers loss				<u>439,158</u>
Change in net assets				13,499,503
Net assets-beginning of year				<u>127,195,951</u>
Net assets-end of year				<u>\$ 140,695,454</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 15,816,674		\$ 15,816,674
Restricted cash and cash equivalents	3,342,918	\$ 151,160,336	154,503,254
Receivables	3,173,614	6,453,778	9,627,392
Due from other governments	2,959,192		2,959,192
Due from other funds	3,447,635		3,447,635
Prepays, deposits and other assets	167,576		167,576
Total assets	\$ 28,907,609	\$ 157,614,114	\$ 186,521,723
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,421,800	\$ 226,164	\$ 1,647,964
Accrued payroll	1,513,243		1,513,243
Due to other funds		3,447,635	3,447,635
Other liabilities	62,854		62,854
Deferred revenue	1,130,106	50,244,447	51,374,553
Total liabilities	4,128,003	53,918,246	58,046,249
Fund balances:			
Nonspendable:			
Prepaid expenses	50,736		50,736
Restricted:			
Air quality grants and projects	5,059,478	103,695,868	108,755,346
Postemployment benefits	3,342,918		3,342,918
Committed:			
Self-funded workers' compensation	1,000,000		1,000,000
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	2,907,891		2,907,891
Unassigned	3,548,009		3,548,009
Total fund balances	24,779,606	103,695,868	128,475,474
Total liabilities and fund balances	\$ 28,907,609	\$ 157,614,114	\$ 186,521,723

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

RECONCILIATION OF THE FUND BALANCES - TOTAL GOVERNMENTAL FUNDS WITH THE STATEMENT OF NET ASSETS JUNE 30, 2012

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	\$ 128,475,474
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	21,821,780
Other long-term assets (receivables) are not available to pay for current-period expenditures and therefore, are deferred in the governmental funds.	691,459
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(4,218,990)
OPEB obligation	<u>(6,074,269)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 140,695,454</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
TFCA / MSIF DMV fees		\$ 36,445,874	\$ 36,445,874
Carl Moyer Program		5,057,518	5,057,518
Permit fees	\$ 24,665,229		24,665,229
Title V permit fees	3,675,922		3,675,922
Asbestos fees	2,187,704		2,187,704
Penalties and variance fees	2,271,025		2,271,025
Hearing board fees	31,331		31,331
State subvention	1,717,061		1,717,061
AB 434/923 others		691,177	691,177
AB 2588 income	570,853		570,853
Special environmental projects	43,410		43,410
Federal grant - EPA	2,677,588		2,677,588
Federal grant - DHS	1,066,469		1,066,469
CMAQ Spare the Air	529,125		529,125
Portable equipment registration program (PERP)	485,771		485,771
Interest	275,688		275,688
County apportionment	21,180,149		21,180,149
California Goods Movement revenue		15,927,132	15,927,132
Other grants	594,315	100,820	695,135
Miscellaneous	16,844		16,844
Total revenues	61,988,484	58,222,521	120,211,005
EXPENDITURES			
General government:			
Program distribution	701,704		701,704
Executive office	2,356,988		2,356,988
Finance and administration	8,555,306		8,555,306
Information systems	3,811,513		3,811,513
Legal services	2,573,340		2,573,340
Outreach and incentives	3,383,934		3,383,934
Compliance and enforcement	11,120,770		11,120,770
Engineering	8,755,881		8,755,881
Planning and research	6,016,606		6,016,606
Technical services	8,715,308		8,715,308
Strategic incentives division	683,909		683,909
TFCA/MSIF, Carl Moyer, & other programs:			
Program distribution		26,766,568	26,766,568
Smoking vehicle		540,390	540,390
Intermittent control		789,737	789,737
TFCA administration		944,825	944,825
Mobile source incentive		337,725	337,725
Regional bikeshare		170,775	170,775
CarSharing incentive		12,725	12,725
Regional electric vehicle deployment		557,537	557,537
California Goods Movement Program:			
Grant administration		1,200,267	1,200,267
Truck Program/LESBP		14,998,083	14,998,083
Capital outlay	3,448,530		3,448,530
Total expenditures	60,123,789	46,318,632	106,442,421
EXCESS OF REVENUES OVER EXPENDITURES	1,864,695	11,903,889	13,768,584
OTHER FINANCING SOURCES (USES)			
Transfers in	392,248		392,248
Transfers (out)		(392,248)	(392,248)
Total other financing source (uses)	392,248	(392,248)	
EXTRAORDINARY ITEM			
Recovery of Lehman Brothers loss	104,081	335,077	439,158
NET CHANGE IN FUND BALANCES	2,361,024	11,846,718	14,207,742
BEGINNING FUND BALANCES	22,418,582	91,849,150	114,267,732
ENDING FUND BALANCES	\$ 24,779,606	\$ 103,695,868	\$ 128,475,474

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, 2012

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 14,207,742

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	3,448,530
Depreciation expense is deducted from fund balance	(1,652,470)
Loss on disposal of capital assets is deducted from fund balance	(11,417)

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	(68,335)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(7,644)
---	---------

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	(39,874)
OPEB obligation	<u>(2,377,029)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 13,499,503

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

1. REPORTING ENTITY AND SIGNIFIGANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

B. Basis of Presentation

Government-wide Statements – The Statement of Net 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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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

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

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

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

Under the modified accrual basis, revenue from exchange and non-exchange transactions must 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. On governmental fund financial statements, receivables that will not be collected within the availability period have been offset with deferred revenue. Deferred revenue also arises when the government receives monies before it has a legal claim to them, including resources received before time requirements are met, or grant monies received prior to incurring qualifying expenditures. (see Note 6)

E. Compensated Absences

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012, management deemed \$68,335 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	5-15 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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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.

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. Future GASB Statement Implementation

In June of 2012, the GASB issued GASB Statement 68 (GASB 68), *Accounting and Financial Reporting for Pensions*, with required implementation for the District during the June 30, 2015 fiscal year-end. GASB 68 is an amendment of GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*. The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. It will require employers to report a net pension liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB 68 is required to be implemented retroactively and will require a restatement of beginning net assets.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 15,816,674
Restricted cash and cash equivalents	<u>154,503,254</u>
Total cash and cash equivalents	<u>\$ 170,319,928</u>

Cash and cash equivalents as of June 30, 2012, consist of the following:

Cash and investments in San Mateo Pooled Fund Investment Program	\$ 166,977,010
Cash and investments with fiscal agent	<u>3,342,918</u>
Total cash and cash equivalents	<u>\$ 170,319,928</u>

Cash in County Treasury

The District is a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code under the oversight of the Treasury of the County of San Mateo (the Treasury). The Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The Treasury is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes, or bonds; the State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Investments Authorized by the District's Investment Policy

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

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

Derivative Investments

The District did not directly enter into any derivative investments, and the County Pool was not holding derivative investments at June 30, 2012.

Disclosures Related to Interest Rate Risk and Credit Risk

Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and the District's investment policy limit the District's investments in banker's acceptances, commercial paper, negotiable certificates of deposit, collateralized certificates of deposit, and repurchase agreements to the rating of A1 or better by Standard & Poor's, or P-1 or better by Moody's Investors Service. Corporate securities and U.S. government 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 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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

The District's cash and investments were categorized as follows at June 30, 2012:

	Ratings		Maturities	Fair Value
	Moody's	S&P		
AIG fixed annuity Investments in San Mateo Pooled Fund Investment Program	Not Rated	Not Rated	Current	\$ 3,342,918
	Aa2	AA-	1.6 years	166,977,010
Total cash and investments				\$ 170,319,928

3. RECEIVABLES

At June 30, 2012, the District had the following accounts receivable:

General Fund:

Permit and other fees	\$ 2,415,968	
County apportionments	661,250	
Interest	27,340	
Other	69,056	
Total General Fund		\$ 3,173,614

Special Revenue Fund:

TFCA DMV fees	4,134,455	
MSIF DMV fees	2,013,958	
Interest	305,365	
Total Special Revenue Fund		6,453,778
Total Accounts Receivable		\$ 9,627,392

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, 2012, the General Fund was owed \$3,447,635 by the Special Revenue Fund.

With Board approval, resources are transferred from one fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Interfund transfers for the year ended June 30, 2012 were as follows:

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Special Revenue Fund	\$ 392,248

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

5. CAPITAL ASSETS

The District's capital assets were comprised of the following at June 30, 2012:

	Balance at 7/1/2011	Additions	Deletions	Transfers	Balance at 6/30/2012
Non-depreciable assets:					
Land	\$ 214,608				\$ 214,608
Construction in progress	10,912,014	\$ 1,165,273		\$ (2,035,319)	10,041,968
Total non-depreciable assets	11,126,622	1,165,273		(2,035,319)	10,256,576
Depreciable assets:					
Building and grounds	9,359,697	49,275		270,530	9,679,502
Leasehold improvements	2,847,646				2,847,646
Computers and network equipment	5,163,677	1,237,546		1,764,789	8,166,012
Motorized equipment	1,319,560		\$ (136,462)		1,183,098
Lab and monitoring equipment	6,975,603	612,804	(91,879)		7,496,528
Furniture and other equipment	1,669,628	383,632			2,053,260
Total depreciable assets	27,335,811	2,283,257	(228,341)	2,035,319	31,426,046
Accumulated depreciation:					
Building and grounds	6,556,530	308,637			6,865,167
Leasehold improvements	2,682,953	2,391			2,685,344
Computers and network equipment	1,798,952	489,160			2,288,112
Motorized equipment	1,211,919	25,062	(129,639)		1,107,342
Lab and monitoring equipment	5,181,054	546,870	(87,285)		5,640,639
Furniture and other equipment	993,888	280,350			1,274,238
Total accumulated depreciation	18,425,296	1,652,470	(216,924)		19,860,842
Total depreciable assets, net	8,910,515	630,787	(11,417)	2,035,319	11,565,204
Total capital assets, net	\$ 20,037,137	\$ 1,796,060	\$ (11,417)	\$	\$ 21,821,780

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Depreciation expense by function for capital assets for the year ended June 30, 2012, is as follows:

Primary Government:	
Executive office	\$ 35,822
Administrative services	120,931
Legal services	30,460
Public information and outreach	15,510
Compliance enforcement	247,849
Engineering	125,846
Planning	109,665
Technical services	597,411
Information services	265,411
Strategic incentives division	<u>103,565</u>
Total depreciation expense	<u>\$ 1,652,470</u>

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, 2012, components of deferred and unearned revenues reported were as follows:

	Deferred Revenue		
	Unearned	Unavailable	Total
General Fund:			
Permits and licenses		\$ 691,459	\$ 691,459
Carl Moyer Program Administration	\$ 438,647		<u>438,647</u>
Subtotal General Fund	<u>438,647</u>	<u>691,459</u>	<u>1,130,106</u>
Special Revenue Fund			
CARB/GMB - Lower Emission School			
Bus Program	879,623		879,623
GMB – On-Road Projects	38,974,215		38,974,215
BART	149,717		149,717
Shore Power Projects	1,954,333		1,954,333
Carl Moyer Program	<u>8,286,559</u>		<u>8,286,559</u>
Subtotal Special Revenue Fund	<u>50,244,447</u>		<u>50,244,447</u>
Total unearned and deferred revenue	<u>\$ 50,683,094</u>	<u>\$ 691,459</u>	<u>\$ 51,374,553</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

7. LONG-TERM LIABILITIES

A schedule of changes in general long-term debt for the year ended June 30, 2012, is shown below:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>	<u>Non</u> <u>Current</u>
Governmental Activities						
Compensated Absences	\$ 4,179,116	\$ 2,711,257	\$ (2,671,383)	\$ 4,218,990	\$ 2,568,650	\$ 1,650,340
OPEB	<u>3,697,240</u>	<u>4,982,000</u>	<u>(2,604,971)</u>	<u>6,074,269</u>	<u> </u>	<u>6,074,269</u>
Total	<u>\$ 7,876,356</u>	<u>\$ 7,693,257</u>	<u>\$ (5,276,354)</u>	<u>\$ 10,293,259</u>	<u>\$ 2,568,650</u>	<u>\$ 7,724,609</u>

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:

<u>Year ended June 30,</u>	
2013	\$ 793,497
2014	614,209
2015	462,145
2016	354,084
2017	319,205
2018 - 2022	<u>154,296</u>
	<u>\$ 2,697,436</u>

Air-monitoring station leases are renewable with minor escalations.

Rental expense for lease agreements for the year ended June 30, 2012, was \$1,121,290.

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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012, is as follows:

Alameda	\$ 3,721,814
Contra Costa	2,539,307
Marin	1,092,121
Napa	740,739
Santa Clara	5,445,417
San Francisco	3,106,933
San Mateo	2,916,475
Solano	545,594
Sonoma	<u>1,071,749</u>
Total county apportionment revenue	<u>\$ 21,180,149</u>

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, 2012, 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% - 2.0%
Required employee contribution rates	7.000%
Required employer contribution rates	11.025%

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2010	\$ 5,112,411	100%	0
6/30/2011	\$ 5,069,670	100%	0
6/30/2012	\$ 5,038,023	100%	0

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

Actuarial accrued liability (AAL)	\$ 208,697,558
Actuarial value of plan assets	<u>184,503,500</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 24,194,058</u>
Funded ratio (actuarial value of plan assets/AAL)	88.4%
Covered payroll (active plan members)	\$ 31,492,142
UAAL as a percentage of payroll	76.8%

CalPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.5% is assumed, including inflation at 2.75% and an annual production growth of 0.25%. Annual salary increases are assumed to vary by duration of service and range from 3.30% to 14.20%. 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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 \$1,604,971 for the year ended June 30, 2012. The additional discretionary funding payment approved by the Board for the year ended June 30, 2012, was \$1,000,000. During the year ended June 30, 2012, one hundred seventy-five (175) retirees participated in the health insurance plan, one hundred forty-six (146) retirees participated in the dental plan, one hundred twenty-seven (127) retirees participated in the vision plan, and one hundred forty-one (141) retirees participated in the life insurance plan.

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

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

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Annual OPEB Cost and Net OPEB Obligation – The ARC was determined as part of the January 1, 2011, actuarial valuation. The ARC rate was 15.5% of annual covered payroll. For the year ended June 30, 2012, the District’s annual other postemployment benefit cost (expense) is \$4,982,000. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District’s net OPEB obligation to the plan:

Annual required contribution	\$	5,085,000
Interest on net OPEB obligation		177,000
Amortization of net OPEB obligation		(280,000)
Annual OPEB cost (expense)		4,982,000
Contributions made		(2,604,971)
Increase in net OPEB obligation		2,377,029
Net OPEB obligation-beginning of year		3,697,240
Net OPEB obligation-end of year	\$	6,074,269

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, 2012, and the two preceding years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/10	\$ 5,278,000	63.8%	\$ 2,329,367
6/30/11	\$ 4,837,000	71.7%	\$ 3,697,240
6/30/12	\$ 4,982,000	52.3%	\$ 6,074,269

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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 16 (sixteen) years remaining as of June 30, 2012.

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, 2012, 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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

In April 2012, the District executed a 30 year Lease Agreement with the Bay Area Headquarters Authority for new offices for the District at 390 Main Street, in San Francisco, California. The offices will replace the District's current facility at 939 Ellis Street. Upon occupancy the District will be responsible for a base rent of \$158,334 per month plus a share of common area expenses. Occupancy is expected during the fiscal year ending June 2014. Additionally, Lease Agreement allows for the District to purchase these offices under a condominium ownership structure during the first 10 years of the lease.

14. EXTRAORDINARY ITEM

On September 15, 2008, Lehman Brothers Holdings Inc. (Lehman Brothers) declared bankruptcy. This bankruptcy had a direct, negative impact on the County Pool's investments in an amount of approximately \$155 million as of September 30, 2008. After extensive consultation with the County's financial advisors and legal counsel, the County Treasurer decided to retain the Lehman securities, but mark their value down to zero and carry the securities as nonperforming assets. For the quarter ended September 30, 2008, the County charged all pool participants' accounts a one-time expense based on their average daily cash balances to reflect the reduction in value. The District's portion of this charge resulted in a loss on investments of \$1,720,955 in the fiscal year ending June 30, 2009.

In March of 2012, Lehman Brothers exited bankruptcy and made an initial payment to creditors on April 17, 2012. The County Pool received \$9,332,132 in this initial distribution, and the District's share of this recovery was \$439,158. The second distribution from the Lehman Brothers distribution occurred in October 2012 and will be included in revenue for the year ending June 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

SCHEDULES OF FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2012

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)
6/30/2009	\$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%
6/30/2011	184,503,500	208,697,558	24,194,058	88.4%	31,492,142	76.8%

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive</u> <u>(Negative)</u>
REVENUES				
Permit fees	\$ 26,320,000	\$ 26,320,000	\$ 24,665,229	\$ (1,654,771)
Title V permit fees	3,030,000	3,030,000	3,675,922	645,922
Asbestos fees	1,771,000	1,771,000	2,187,704	416,704
Penalties and variance fees	1,500,000	1,500,000	2,271,025	771,025
Hearing board fees	20,000	20,000	31,331	11,331
State subvention	1,718,169	1,718,169	1,717,061	(1,108)
AB 2588 income	724,000	724,000	570,853	(153,147)
Special environmental projects	81,132	4,452,855	542,150	(3,910,705)
Federal grant -EPA	1,609,260	2,570,154	2,677,588	107,434
Federal grant - DHS	1,260,136	1,260,136	1,066,469	(193,667)
CMAQ Spare the Air	305,000	305,000	529,125	224,125
Other grants	411,772	611,772	664,315	52,543
Portable equipment registration program (PERP)	200,000	200,000	485,771	285,771
Interest	275,598	275,598	275,688	90
County apportionment	21,018,016	21,018,016	21,180,149	162,133
Miscellaneous			16,844	16,844
Total revenues	<u>60,244,083</u>	<u>65,776,700</u>	<u>62,557,224</u>	<u>(3,219,476)</u>
EXPENDITURES				
Executive office	2,518,460	2,469,718	2,356,988	112,730
Finance and administration	9,678,767	9,580,162	8,555,306	1,024,856
Information systems	4,623,217	3,527,741	3,811,513	(283,772)
Legal services	2,596,019	2,658,493	2,573,340	85,153
Outreach and incentives	3,404,940	4,650,099	3,383,934	1,266,165
Compliance and enforcement	11,640,304	11,617,135	11,120,770	496,365
Engineering	9,085,624	9,213,169	8,755,881	457,288
Planning and research	6,376,645	7,216,601	6,016,606	1,199,995
Technical services	8,344,831	9,853,672	8,715,308	1,138,364
Program distribution		4,571,723	701,704	3,870,019
Strategic incentives division	685,875	712,585	683,909	28,676
Total current expenditures	58,954,682	66,071,098	56,675,259	9,395,839
Capital outlay	2,129,544	3,448,530	3,448,530	
Total expenditures	<u>61,084,226</u>	<u>69,519,628</u>	<u>60,123,789</u>	<u>9,395,839</u>
DEFICIENCY OF REVENUES				
OVER EXPENDITURES	<u>(840,143)</u>	<u>(3,742,928)</u>	<u>2,433,435</u>	<u>6,176,363</u>
OTHER FINANCING SOURCES				
Transfers in			392,248	(392,248)
Transfers out	(54,393)	(54,393)		54,393
Total other financing sources	<u>(54,393)</u>	<u>(54,393)</u>	<u>392,248</u>	<u>(337,855)</u>
EXTRAORDINARY ITEM				
Recovery on Lehman Brothers Loss			104,081	104,081
NET CHANGE IN FUND BALANCE	<u>\$ (894,536)</u>	<u>\$ (3,797,321)</u>	<u>2,929,764</u>	<u>\$ 5,942,589</u>
BEGINNING BUDGETARY FUND BALANCE			<u>16,789,764</u>	
ENDING BUDGETARY FUND BALANCE			<u>\$ 19,719,528</u>	

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
TFCA/MSIF DMV fee	\$ 44,174,997	\$ 42,904,450	\$ 24,629,156	\$ (18,275,294)
Carl Moyer Program	8,235,440	11,278,100	5,057,518	(6,220,582)
AB 434/923 others			691,177	691,177
CA Goods Movement Revenue	14,930,356	22,200,005	15,897,132	(6,302,873)
Other grants			100,820	100,820
Total revenues	67,340,793	76,382,555	46,375,803	(30,006,752)
EXPENDITURES				
TFCA/MSIF, Carl Moyer, & other programs:				
Program distribution	42,052,310	43,448,887	26,766,568	16,682,319
Smoking vehicle	573,250	588,857	540,390	48,467
Intermittent control	965,889	1,013,858	789,737	224,121
TFCA administration	1,325,019	1,625,723	944,825	680,898
Mobile source incentive	558,295	569,549	337,725	231,824
Regional BikeShare	3,302,196	3,302,197	170,775	3,131,422
CarSharing Incentive Program	168,266	168,267	12,725	155,542
Regional Electric Vehicle Deployment	3,220,677	3,220,677	557,537	2,663,140
California Goods Movement Program:				
Grant administration	1,162,284	1,248,032	1,200,267	47,765
Truck Program/LESBP	14,067,000	21,250,901	14,998,083	6,252,818
Total expenditures	67,395,186	76,436,948	46,318,632	30,118,316
EXCESS OF REVENUES OVER EXPENDITURES				
	(54,393)	(54,393)	57,171	111,564
OTHER FINANCING USES				
Transfers in	54,393	54,393		(54,393)
Transfers out			(392,248)	(392,248)
Total other financing uses	54,393	54,393	(392,248)	(446,641)
EXTRAORDINARY ITEM				
Recovery on Lehman Brothers Loss			335,077	335,077
NET CHANGE IN FUND BALANCE	\$	\$		\$
BEGINNING BUDGETARY FUND BALANCE				
ENDING BUDGETARY FUND BALANCE			\$	

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2012

Budgetary Principles

Through the budget process, the Board of Directors sets the direction of the District. The annual budget assures the most efficient and effective use of the District's economic resources, and establishes the priority of objectives that are to be accomplished during the fiscal year.

The annual budget covers the period from July 1 to June 30, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. In addition, it establishes the foundation of effective financial planning by providing resource allocation, performance measures and controls that permit the evaluation and adjustment of the District's performance.

The District follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a) The Board of Directors adopts an annual budget by resolution prior to July 1 of each fiscal year. The annual budget indicates appropriations by fund and by program. The Board of Directors may also adopt supplemental appropriations during the year. At the fund level, expenditures may not legally exceed appropriations. The Air Pollution Control Officer (APCO) is authorized to transfer budgeted amounts between divisions and programs within any fund.
- b) Budgets are adopted on a basis that is consistent with Generally Accepted Accounting Principles (GAAP) with the exception of recognition of certain revenues, as discussed below. Annual appropriated budgets are adopted for the General and Special Revenue funds.
- c) Supplementary budgetary revenue and expenditure appropriations were adopted by the Board of Directors during the fiscal year. These supplemental appropriations have been included in the Budgeted Amounts - Final column of the Budgetary Comparison Schedules.

Reconciliation to the Statement of Revenues, Expenditures and Changes in Fund Balances

The District's budgetary basis is consistent with Generally Accepted Accounting Principles (GAAP), with the exception of certain revenues that are recognized when earned in the GAAP-basis financial statements, but deferred until expended on the budgetary basis. Revenues in the Budget and Actual schedules have been presented on the budgetary basis to provide a more meaningful comparison of actual results with the budget. The following is a reconciliation between revenues on the budgetary basis and the GAAP basis reflected in the statement of revenues, expenditures and changes in fund balance.

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Revenues – Budgetary Basis	\$ 62,557,224	\$ 46,375,803
Revenue recognition adjustments	<u>(568,740)</u>	<u>11,846,718</u>
Revenues – GAAP Basis	<u>\$ 61,988,484</u>	<u>\$ 58,222,521</u>

SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM, MOBILE SOURCE INCENTIVE PROGRAM, CARL MOYER PROGRAM, & OTHER PROGRAMS SCHEDULE OF EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2012

<u>Programs</u>	<u>Salaries and Benefits</u>	<u>Services and Supplies</u>	<u>Program Distribution</u>	<u>Total</u>
Program distribution			\$ 26,766,568	\$ 26,766,568
Smoking vehicle	\$ 244,174	\$ 296,216		540,390
Intermittent control	371,543	418,194		789,737
TFCA administration	627,697	317,128		944,825
Regional BikeShare	132,064	38,711		170,775
CarSharing Incentive Program	12,725			12,725
Regional Electric Vehicle Deployment	125,837	431,700		557,537
Mobile source incentive	<u>316,309</u>	<u>21,416</u>		<u>337,725</u>
Total expenditures	<u>\$ 1,830,349</u>	<u>\$ 1,523,365</u>	<u>\$ 26,766,568</u>	<u>\$ 30,120,282</u>