

**BAY AREA AIR QUALITY  
MANAGEMENT DISTRICT**

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

**FOR THE YEAR ENDED  
JUNE 30, 2013**

# 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**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Bay Area Air Quality Management District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Bay Area Air Quality Management District, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Note 1, the District adopted the provisions of Governmental Accounting Standards Board (GASB) GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**December 19, 2013**

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013. 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 2012-13 by \$150,323,589 (net position). Of this amount, \$13,095,694 could be used to finance the District's daily operations without legal or legislative constraints (unrestricted assets); \$114,558,909 was restricted to specific uses (restricted assets); and \$22,668,986 was invested in capital assets. Net position increased by \$9,628,135 from fiscal year 2011-12.

The District's governmental funds reported a fund balance of \$137,067,212. The entire fund balance of the Special Revenue Fund in the amount of \$108,846,853 is reserved for air quality grants and projects. The General Fund balance consists of \$15,524,251 representing the assigned fund balance, \$5,059,722 unassigned, and the remaining balance of \$7,636,386 restricted, committed or nonspendable. Table 1 presents the General Fund detail of fund balances as of June 30, 2013, and June 30, 2012.

**Table 1. General Fund Balances as of June 30, 2013, and 2012**

Category	General Fund June 30, 2013	General Fund June 30, 2012	Increase/ (Decrease)
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
Prepaid Expenses	\$ 580,217	\$ 50,736	\$ 529,481
<b>Restricted:</b>			
Air Quality Grants and Projects	3,020,616	5,059,478	(2,038,862)
Post-Employment Benefits	2,691,440	3,342,918	(651,478)
<b>Committed:</b>			
Self-Funded Worker's Compensation	1,344,113	1,000,000	344,113
<b>Assigned:</b>			
Building and Facilities	5,478,276	4,075,756	1,402,520
PERS Funding	2,016,169	1,500,000	516,169
Post-Employment Benefits	2,688,226	2,000,000	688,226
Radio Replacement	100,808	75,000	25,808
Capital Equipment	1,639,573	1,219,818	419,755
Air Quality Grants and Projects	3,601,199	2,907,891	693,308
<b>Unassigned:</b>	5,059,722	3,548,009	1,511,713
<b>Total Fund Balance</b>	<b>\$ 28,220,359</b>	<b>\$ 24,779,606</b>	<b>\$ 3,440,753</b>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

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### **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 Position and the Statement of Activities.

The Statement of Net Position 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 Position*. The net position total is comparable to total stockholder's equity presented on the balance sheet of a private enterprise. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position as of June 30, 2013 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 position. 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, 2013

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### **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 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 Position 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, 2013

### 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 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 38.

### C. Government-Wide Financial Analysis

The government-wide financial analyses focus on net position and changes in net position of the District's governmental activities. Table 2 below shows a condensed Statement of Net Position as of June 30, 2013 compared to the fiscal year ended June 30, 2012.

**Table 2. Statement of Net Position as of June 30, 2013 and June 30, 2012**

	Governmental Activities June 30, 2013	Governmental Activities June 30, 2012	Increase/ (Decrease)
Current & Other Assets	\$ 177,187,601	\$ 183,074,088	\$ (5,886,487)
Capital Assets	22,668,986	21,821,780	847,206
<b>Total Assets</b>	<b>199,856,587</b>	<b>204,895,868</b>	<b>(5,039,281)</b>
Current Liabilities	41,933,163	56,475,805	(14,542,642)
Noncurrent Liabilities	7,599,835	7,724,609	(124,774)
<b>Total Liabilities</b>	<b>49,532,998</b>	<b>64,200,414</b>	<b>(14,667,416)</b>
Net Position:			
Invested in Capital Assets	22,668,986	21,821,780	847,206
Restricted	114,558,909	112,098,264	2,460,645
Unrestricted net position	13,095,694	6,775,410	6,320,284
<b>Total Net Position</b>	<b>\$ 150,323,589</b>	<b>\$ 140,695,454</b>	<b>\$ 9,628,135</b>

As noted earlier, total net position may serve over time as a useful indicator of the District's financial position. At June 30, 2013 the District's assets exceeded its liabilities by \$150,323,589, an increase of \$9,628,135 over the previous fiscal year. This increase is mainly due to a reduction in unearned revenues (current liabilities) from prior year now being recognized as revenue to offset California Goods Movement Program expenditures incurred in the current fiscal year.

Restricted assets are to be used for specific programs and purposes according to legal terms and conditions. The remaining portion of the District's net position is unrestricted and 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, 2013

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

Table 3 below provides changes in net position for the fiscal year ending June 30, 2013 compared with the fiscal year ended June 30, 2012.

**Table 3. Statement of Activities for Fiscal Years 2012-13 and 2011-12**

	Governmental Activities FY 2012-13	Governmental Activities FY 2011-12	Dollar Increase / (Decrease)	Percentage Increase / (Decrease)
<b>Revenues:</b>				
TFCA/MSIF DMV Fees	\$ 34,443,523	\$ 36,445,874	\$ (2,002,351)	-5%
Carl Moyer	7,704,566	5,057,518	2,647,048	52%
California Goods Movement Revenue	27,793,503	15,927,132	11,866,371	75%
Permit Fees	25,697,402	24,657,585	1,039,817	4%
Title V Permit Fees	3,627,490	3,675,922	(48,432)	-1%
State Subvention	1,712,022	1,717,061	(5,039)	0%
Spare the Air Grant (CMAQ)	652,373	529,125	123,248	23%
Federal Grants (EPA)	2,687,345	2,677,588	9,757	0%
Federal Grants (Homeland Security)	1,224,148	1,066,469	157,679	15%
Penalties & Variance Fees	1,670,702	2,271,025	(600,323)	-26%
Hearing Board Fees	17,400	31,331	(13,931)	-44%
AB 2588 Income	635,408	570,853	64,555	11%
Asbestos Fees	2,465,047	2,187,704	277,343	13%
Interest Revenue	262,802	275,688	(12,886)	-5%
Other Grants	2,992,513	1,180,906	1,811,607	153%
AB434 Others	872,415	691,177	181,238	26%
Miscellaneous Revenue	66,606	16,844	49,762	295%
Special Environmental Projects	26,570	43,410	(16,840)	-39%
County Apportionments	23,733,376	21,180,149	2,553,227	12%
<b>Total Revenues</b>	<b>138,285,211</b>	<b>120,203,361</b>	<b>18,081,850</b>	<b>15%</b>
<b>Expenses:</b>				
General Government	59,253,688	57,230,285	2,023,403	4%
TFCA/MSIF, CMP, & Other programs	39,293,807	30,180,968	9,112,839	30%
California Goods Movement Program	28,172,525	16,283,233	11,889,292	73%
Capital Outlay	2,580,592	3,448,530	(867,938)	-25%
<b>Total Expenses</b>	<b>129,300,612</b>	<b>107,143,016</b>	<b>22,157,596</b>	<b>21%</b>
<b>Change in Net Position before</b>				
<b>Extraordinary Item</b>	8,984,599	13,060,345	(4,075,746)	-31%
Recovery of Lehman Brothers loss	643,536	439,158	204,378	47%
<b>Change in Net Position</b>	<b>9,628,135</b>	<b>13,499,503</b>	<b>(3,871,368)</b>	<b>-29%</b>
<b>Net Position, beginning of year</b>	<b>140,695,454</b>	<b>127,195,951</b>	<b>13,499,503</b>	<b>11%</b>
<b>Net Position, end of year</b>	<b>\$ 150,323,589</b>	<b>\$ 140,695,454</b>	<b>\$ 9,628,135</b>	<b>7%</b>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

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

#### Governmental Activities

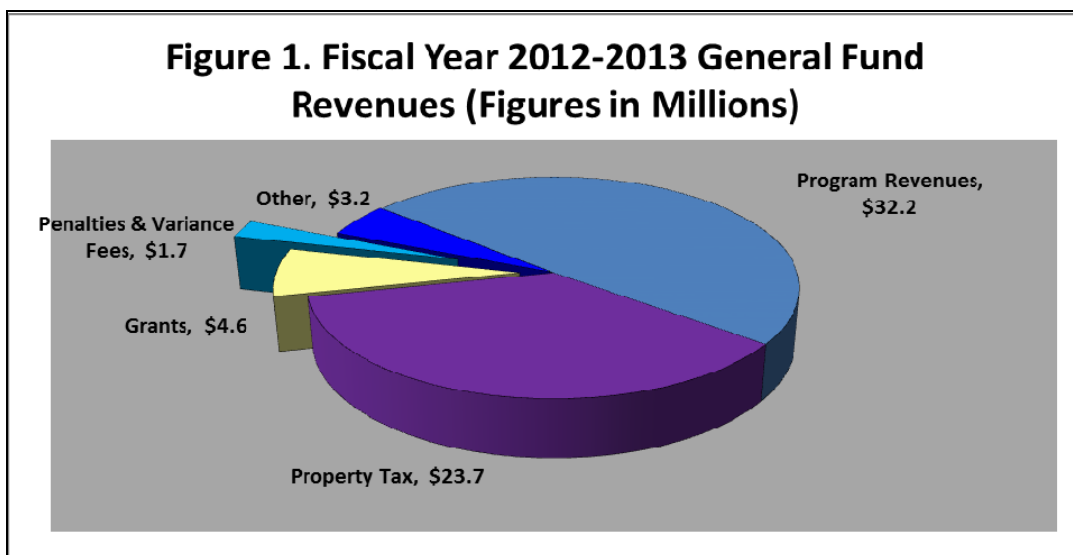
The objective of the Statement of Activities is to report the full cost of providing government services during the fiscal year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws funds from the general funds of the government.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year 2012-2013. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

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

### D. General Fund Financial Analysis

Figure 1 below provides a pie chart of the District's General Fund revenues for fiscal year 2012-2013. The General Fund received total revenue of \$65,392,824 in fiscal year 2012-13, an increase of \$3,404,340 over fiscal year 2011-12. This increase is comprised of increased revenues of \$2.5 million in property tax and \$1.1 million in permit fees. The increase in property tax resulted from one-time Prop 1A loan repayments from the State of California, distribution of excess housing funds resulting from dissolution of all California redevelopment agencies, and increased property values. In addition, the District increased permit fees by an average of 6.4%, resulting in increased revenues over prior year. Program Revenues include: Permit, AB2588, Title V, and Asbestos fees. Program revenues were the largest General Fund revenue source in fiscal 2012-13 (\$32.2 million), followed by Property Tax (\$23.7 million), Grants (\$4.6 million), Penalties (\$1.7 million), and Other revenues (\$3.2 million).

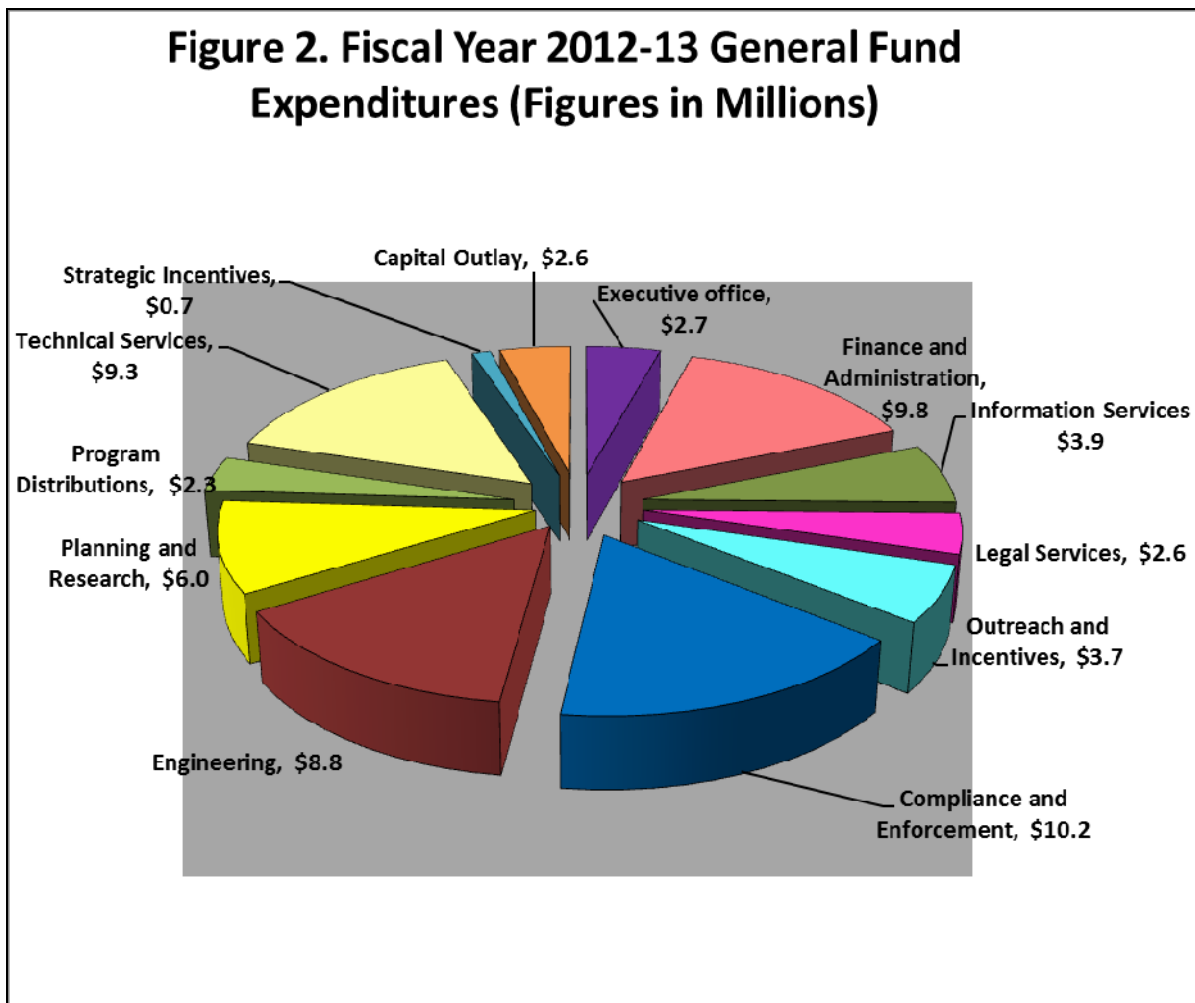


# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

### D. General Fund Financial Analysis, Continued

Figure 2 below provides a graph of General Fund expenditures for fiscal year 2012-13. General Fund expenditures totaled \$62,610,044 which is an increase of \$2,486,255 over fiscal year 2011-12. This increase resulted in a combined increase of \$4.1 million in program distributions for special environmental projects and operating increases in the Executive Office, Finance & Administration, Outreach & Incentives and Technical Services; offset by a \$1.7 million decrease in expenditure in Compliance & Enforcement and Capital Outlay. General Fund expenditures represent the District's general government operating costs categorized into the following operating divisions: Compliance and Enforcement (\$10.2 million), Engineering (\$8.8 million), Finance & Administrative Services (\$9.8 million), Information Services (\$3.9 million), Technical Services (\$9.3 million), Executive (\$2.7 million), Planning (\$6.0 million), Outreach & Incentives (\$3.7 million), Strategic Incentives (\$0.7 million) and Legal Services (\$2.6 million). Program Distribution (\$2.3 million) is not an operating division, but rather a category capturing expenditure used for special projects. The District also incurred \$2.6 million of Capital Outlay in fiscal year 2012-13 to acquire capital equipment and construction cost of the Production System. General Fund revenues exceeded expenditures by \$2,782,780 in fiscal year 2012-13.



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

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### **D. General Fund Financial Analysis, Continued**

The General Fund is the operating fund of the District and at the end of the fiscal year, the total fund balance of the General Fund was \$28.2 million. The assigned fund balance was \$15.5 million, committed \$1.3 million, restricted \$5.7 million, and non-spendable \$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 24.8% of the total General Fund expenditures, while the total fund balance represents 45.1% of the total fund expenditures.

The FY 2012-13 adopted budget as compared to the actual expenditures reflects an increase in appropriations of \$2.7 million. The changes to the budget were the result of Governing Board actions, and carryover of unspent funds from FY 2011-12.

### **E. Capital Assets**

As of June 30, 2013 the District's investment in capital assets was \$22.7 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 36% of its General Fund revenue from property taxes levied in nine Bay Area counties and 48% from permit fees charged to local businesses. Consequently, District revenues are impacted by changes in the state and local economy. The District takes a fiscally conservative approach to its budget and it strives to balance its budget within available current revenues. In an effort to recover a greater share of the costs of maintaining air quality, the District increased its permitting fees by approximately 6.4% in FY 2012-13. 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 Stephanie Osaze, Finance Manager, at 939 Ellis Street, San Francisco, CA 94109.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2013

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 17,869,838
Restricted cash and cash equivalents	143,606,116
Receivables	10,650,105
Due from other governments	4,362,485
Prepays, deposits, and other current assets	<u>699,057</u>
Capital assets:	
Non-depreciable	11,656,745
Depreciable, net	<u>11,012,241</u>
Total capital assets	<u>22,668,986</u>
 Total assets	 <u>199,856,587</u>
<b>LIABILITIES</b>	
Accounts payable	2,209,778
Accrued payroll	1,455,392
Other current liabilities	243,279
Unearned revenue	35,324,714
Long-term liabilities:	
Due within one year	2,700,000
Due in more than one year	<u>7,599,835</u>
 Total liabilities	 <u>49,532,998</u>
<b>NET POSITION</b>	
Net investment in capital assets	22,668,986
Restricted for air quality grants and projects	111,867,469
Restricted for post-employment benefits	2,691,440
Unrestricted net position	<u>13,095,694</u>
 Total net position	 <u>\$ 150,323,589</u>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Primary government	\$ 61,834,280	\$ 34,633,678	\$ 6,950,368	\$ (20,250,234)
California Goods Movement program	<u>28,172,525</u>	<u>                    </u>	<u>27,793,503</u>	<u>(379,022)</u>
TFCA/MSIF, CMP, & other programs:				
TFCA/MSIF & other program distribution	31,589,241	<u>                    </u>	37,140,312	5,551,071
Carl Moyer Program	<u>7,704,566</u>	<u>                    </u>	<u>7,704,566</u>	<u>                    </u>
Total TFCA/MSIF, CMP, & other programs	<u>39,293,807</u>	<u>                    </u>	<u>44,844,878</u>	<u>5,551,071</u>
Total governmental activities	<u>\$ 129,300,612</u>	<u>\$ 34,633,678</u>	<u>\$ 79,588,749</u>	<u>(15,078,185)</u>
General revenues:				
County apportionment				23,733,376
Investment income not restricted for a specific program				262,802
Other				<u>66,606</u>
Total general revenues				<u>24,062,784</u>
Change in net position before extraordinary item				8,984,599
Extraordinary item:				
Recovery of Lehman Brothers loss				<u>643,536</u>
Change in net position				9,628,135
Net position-beginning of year				<u>140,695,454</u>
Net position-end of year				<u>\$ 150,323,589</u>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2013

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 17,869,838		\$ 17,869,838
Restricted cash and cash equivalents	2,691,440	\$ 140,914,676	143,606,116
Receivables	4,319,388	6,330,717	10,650,105
Due from other governments	2,247,943	2,114,542	4,362,485
Due from other funds	4,505,766		4,505,766
Prepays, deposits, and other assets	699,057		699,057
Total assets	\$ 32,333,432	\$ 149,359,935	\$ 181,693,367
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 1,092,336	\$ 1,117,442	\$ 2,209,778
Accrued payroll	1,455,392		1,455,392
Due to other funds		4,505,766	4,505,766
Other liabilities	243,279		243,279
Unearned revenue	434,840	34,889,874	35,324,714
Unavailable revenue	887,226		887,226
Total liabilities	4,113,073	40,513,082	44,626,155
Fund balances:			
Nonspendable:			
Prepaid items	580,217		580,217
Restricted:			
Air quality grants and projects	3,020,616	108,846,853	111,867,469
Postemployment benefits	2,691,440		2,691,440
Committed:			
Self-funded workers' compensation	1,344,113		1,344,113
Assigned:			
PERS funding	2,016,169		2,016,169
Postemployment benefits	2,688,226		2,688,226
Building and facilities	5,478,276		5,478,276
Radio replacement	100,808		100,808
Capital equipment	1,639,573		1,639,573
Air quality grants and projects	3,601,199		3,601,199
Unassigned	5,059,722		5,059,722
Total fund balances	28,220,359	108,846,853	137,067,212
Total liabilities and fund balances	\$ 32,333,432	\$ 149,359,935	\$ 181,693,367

See accompanying notes to financial statements.



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## RECONCILIATION OF THE FUND BALANCES - TOTAL GOVERNMENTAL FUNDS WITH THE STATEMENT OF NET POSITION JUNE 30, 2013

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

Total fund balances - total governmental funds	\$ 137,067,212
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	22,668,986
Other long-term assets (receivables) are not available to pay for current-period expenditures and therefore, are reported as unavailable revenue in the funds.	887,226
The liabilities below are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(4,339,195)
OPEB obligation	<u>(5,960,640)</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 150,323,589</u></b>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## GOVERNMENTAL FUNDS

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
TFCA / MSIF DMV fees		\$ 34,443,523	\$ 34,443,523
Carl Moyer Program		7,704,566	7,704,566
Permit fees	\$ 25,443,396		25,443,396
Title V permit fees	3,627,490		3,627,490
Asbestos fees	2,465,047		2,465,047
Penalties and variance fees	1,670,702		1,670,702
Hearing board fees	17,400		17,400
State subvention	1,712,022		1,712,022
AB 434/923 others		872,415	872,415
AB 2588 income	635,408		635,408
Special environmental projects	26,570		26,570
Federal grants	4,563,866	2,445,302	7,009,168
Portable equipment registration program (PERP)	493,659		493,659
Interest	262,802		262,802
County apportionment	23,733,376		23,733,376
California Goods Movement revenue		27,172,575	27,172,575
Other grants	674,480		674,480
Miscellaneous	66,606		66,606
Total revenues	<u>65,392,824</u>	<u>72,638,381</u>	<u>138,031,205</u>
<b>EXPENDITURES</b>			
General government:			
Program distribution	2,265,669		2,265,669
Executive office	2,692,205		2,692,205
Finance and administration	9,829,855		9,829,855
Information systems	3,908,909		3,908,909
Legal services	2,638,640		2,638,640
Outreach and incentives	3,704,929		3,704,929
Compliance and enforcement	10,203,004		10,203,004
Engineering	8,825,817		8,825,817
Planning and research	5,977,851		5,977,851
Technical services	9,321,831		9,321,831
Strategic incentives division	660,742		660,742
TFCA/MSIF, Carl Moyer, & other programs:			
Program distribution		31,930,260	31,930,260
Smoking vehicle		715,624	715,624
Intermittent control		1,064,509	1,064,509
TFCA administration		973,189	973,189
Mobile source incentive		568,734	568,734
Regional bikeshare		2,512,668	2,512,668
CarSharing incentive		16,260	16,260
Regional electric vehicle deployment		1,003,937	1,003,937
Enhanced mobile source inspection		513,959	513,959
California Goods Movement Program & other programs:			
Grant administration		965,567	965,567
Truck Program/LESBP		27,208,252	27,208,252
Capital outlay	2,580,592		2,580,592
Total expenditures	<u>62,610,044</u>	<u>67,472,959</u>	<u>130,083,003</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>2,782,780</u>	<u>5,165,422</u>	<u>7,948,202</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	505,454		505,454
Transfers (out)		(505,454)	(505,454)
Total other financing source (uses)	<u>505,454</u>	<u>(505,454)</u>	<u></u>
<b>EXTRAORDINARY ITEM</b>			
Recovery of Lehman Brothers loss	152,519	491,017	643,536
<b>NET CHANGE IN FUND BALANCES</b>	<u>3,440,753</u>	<u>5,150,985</u>	<u>8,591,738</u>
<b>BEGINNING FUND BALANCES</b>	<u>24,779,606</u>	<u>103,695,868</u>	<u>128,475,474</u>
<b>ENDING FUND BALANCES</b>	<u>\$ 28,220,359</u>	<u>\$ 108,846,853</u>	<u>\$ 137,067,212</u>

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, 2013

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**      \$    8,591,738

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	2,580,592
Depreciation expense is deducted from fund balance	(1,715,066)
Loss on disposal of capital assets is deducted from fund balance	(18,320)

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	(58,239)
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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.	254,006
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The amounts below included in the Statement of Activities do not require the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Compensated absences	(120,205)
OPEB obligation	<u>113,629</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES**      \$    9,628,135

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### 1. REPORTING ENTITY AND SIGNIFIGANT ACCOUNTING POLICIES

#### A. Reporting Entity

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

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

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

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

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

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

#### B. Basis of Presentation

**Government-wide Statements** – The Statement of Net Position and the Statement of Activities display information about the primary government (District). Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

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

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

### C. Funds Presented

The District's major governmental funds are required to be identified and presented separately in the fund financial statements. 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, 2013

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

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

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

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

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

### **E. Current Year GASB Implementation**

For the year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*. The objective of GASB 63 is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the District’s net position. The objective of GASB 65 is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The implementation of the two GASB statements resulted in certain changes in presentation but did not have a material impact on the District’s financial statements.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### **F. Compensated Absences**

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

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

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

### **G. Use of Management Estimates**

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

### **H. Receivables**

During the course of normal operations, the District carries various receivable balances for taxes, interest, and permitting operations. The District considers receivables to be fully collectible; accordingly no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations when that determination is made. During the year ending June 30, 2013, management deemed \$58,239 of outstanding receivables to be uncollectible.

### **I. Capital Assets**

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

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

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### J. Net Position / Fund Balance

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

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

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

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

The governmental fund statements utilize a fund balance presentation. Fund balances are categorized as 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.

### K. Future GASB Statement Implementation

In June of 2012, the GASB issued GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with required implementation for the District during the year ended June 30, 2015. GASB 68 is an amendment of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The primary objective of GASB 68 is to improve accounting and financial reporting



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 position.

### 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, 2013, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 17,869,838
Restricted cash and cash equivalents	<u>143,606,116</u>
Total cash and cash equivalents	<u>\$ 161,475,954</u>

Cash and cash equivalents as of June 30, 2013, consist of the following:

Cash and investments in San Mateo Pooled Fund Investment Program	\$ 158,784,514
Cash and investments with fiscal agent	<u>2,691,440</u>
Total cash and cash equivalents	<u>\$ 161,475,954</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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

### Investments Authorized by the District's Investment Policy

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

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

### Derivative Investments

The District did not directly enter into any derivative investments, and the County Pool was not holding derivative investments at June 30, 2013.

### 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 by 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.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013:

	Ratings		Maturities	Fair Value
	Moody's	S&P		
AIG fixed annuity	Not Rated	Not Rated	Current	\$ 2,691,440
Investments in San Mateo Pooled Fund Investment Program	Aa1/P-1	AA/A-1	1.97 years	158,784,514
Total cash and investments				\$ 161,475,954

### 3. RECEIVABLES

At June 30, 2013, the District had the following accounts receivable:

**General Fund:**

Permit and other fees	\$ 2,521,091	
County apportionments	1,086,813	
Portable Equipment Registration Program	493,659	
Interest	31,264	
Other	186,561	
Total General Fund		\$ 4,319,388

**Special Revenue Fund:**

TFCA DMV fees	4,079,484	
MSIF DMV fees	2,033,978	
Interest	217,255	
Total Special Revenue Fund		6,330,717
<b>Total Accounts Receivable</b>		<b>\$ 10,650,105</b>

### 4. INTERFUND TRANSACTIONS

Current interfund balances arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly after the end of the fiscal year when revenues are received. At June 30, 2013, the General Fund was owed \$4,505,766 by the Special Revenue Fund.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013 were as follows:

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount Transferred</u>
General Fund	Special Revenue Fund	\$ 505,454

### 5. CAPITAL ASSETS

The District's capital assets were comprised of the following at June 30, 2013:

	<u>Balance at 7/1/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance at 6/30/2013</u>
Non-depreciable assets:					
Land	\$ 214,608				\$ 214,608
Construction in progress	10,041,968	\$ 1,715,737		\$ (315,568)	11,442,137
Total non-depreciable assets	10,256,576	1,715,737		(315,568)	11,656,745
Depreciable assets:					
Building and grounds	9,679,502				9,679,502
Leasehold improvements	2,847,646				2,847,646
Computers and network equipment	8,166,012	32,778		315,568	8,514,358
Motorized equipment	1,183,098	26,532	\$ (163,892)		1,045,738
Lab and monitoring equipment	7,496,528	280,244	(174,038)		7,602,734
Furniture and other equipment	2,053,260	525,301			2,578,561
Total depreciable assets	31,426,046	864,855	(337,930)	315,568	32,268,539
Accumulated depreciation:					
Building and grounds	6,865,167	307,446			7,172,613
Leasehold improvements	2,685,344	2,391			2,687,735
Computers and network equipment	2,288,112	568,259			2,856,371
Motorized equipment	1,107,342	16,239	(155,697)		967,884
Lab and monitoring equipment	5,640,639	582,934	(163,913)		6,059,660
Furniture and other equipment	1,274,238	237,797			1,512,035
Total accumulated depreciation	19,860,842	1,715,066	(319,610)		21,256,298
Total depreciable assets, net	11,565,204	(850,211)	(18,320)	315,568	11,012,241
Total capital assets, net	\$ 21,821,780	\$ 865,526	\$ (18,320)	\$	\$ 22,668,986

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Depreciation expense by function for capital assets for the year ended June 30, 2013, is as follows:

Primary Government:		
Executive office	\$	42,081
Administrative services		118,086
Legal services		40,442
Public information and outreach		22,097
Compliance enforcement		187,877
Engineering		147,969
Planning		128,025
Technical services		668,796
Information services		256,128
Strategic Incentives Division		<u>103,565</u>
Total depreciation expense	\$	<u><u>1,715,066</u></u>

### 6. UNEARNED / UNAVAILABLE REVENUE

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

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

At June 30, 2013, components of unearned and unavailable revenues reported were as follows:

	<u>Unearned Revenue</u>	<u>Unavailable Revenue</u>	<u>Total</u>
<b>General Fund:</b>			
Permits and licenses		\$ 887,226	\$ 887,226
Carl Moyer Program Administration	\$ 418,458		418,458
Air Quality Improvement Program	<u>16,382</u>		<u>16,382</u>
Subtotal General Fund	<u>434,840</u>	<u>887,226</u>	<u>1,322,066</u>
<b>Special Revenue Fund:</b>			
CARB/GMB - Lower Emission School			
Bus Program	575,474		575,474
GMB – On-Road Projects	12,530,056		12,530,056
BART	149,717		149,717
Shore Power Projects	19,470,702		19,470,702
Carl Moyer Program	<u>2,163,925</u>		<u>2,163,925</u>
Subtotal Special Revenue Fund	<u>34,889,874</u>		<u>34,889,874</u>
Total unearned and unavailable revenue	<u>\$ 35,324,714</u>	<u>\$ 887,226</u>	<u>\$ 36,211,940</u>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

### 7. LONG-TERM LIABILITIES

A schedule of changes in general long-term debt for the year ended June 30, 2013, is shown below:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>	<u>Non</u> <u>Current</u>
<b>Governmental Activities</b>						
Compensated Absences	\$ 4,218,990	\$ 2,813,274	\$ (2,693,069)	\$ 4,339,195	\$ 2,700,000	\$ 1,639,195
OPEB	<u>6,074,269</u>	<u>5,080,000</u>	<u>(5,193,629)</u>	<u>5,960,640</u>		<u>5,960,640</u>
Total	<u>\$ 10,293,259</u>	<u>\$ 7,893,274</u>	<u>\$ (7,886,698)</u>	<u>\$ 10,299,835</u>	<u>\$ 2,700,000</u>	<u>\$ 7,599,835</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. 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,

2014	785,729
2015	586,952
2016	451,635
2017	417,070
2018	246,044
2019-2020	<u>16,720</u>
	<u>\$ 2,504,150</u>

Air-monitoring station leases are renewable with minor escalations.

Rental expense for lease agreements for the year ended June 30, 2013, was \$1,204,760.

In April 2012, the District executed a 30 year lease agreement with the Bay Area Headquarters Authority for new District offices at 375 Beale 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 calendar year 2015. Additionally, the lease agreement allows for the District to purchase these offices under a condominium ownership structure during the first 10 years of the lease. See additional information in Note 15.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### 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, 2013, is as follows:

Alameda	\$ 4,443,778
Contra Costa	2,811,038
Marin	1,117,185
Napa	786,973
Santa Clara	6,246,542
San Francisco	3,225,816
San Mateo	3,235,270
Solano	647,488
Sonoma	<u>1,219,286</u>
Total county apportionment revenue	<u>\$ 23,733,376</u>

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

### 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 2.5% of employees' contributions to CalPERS for employees hired prior to January 1, 2013. The Plan's provisions and benefits in effect at June 30, 2013, 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:	
Classic active members	7.0%
New active members hired on or after January 1, 2013, subject to the California Public Employees' Pension Reform Act (PEPRA)	6.25%
Required employer contribution rates:	
Classic active members	11.9%
New active members hired on or after January 1, 2013, subject to PEPRA	11.457%

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>
6/30/2011	\$ 5,069,670	100%	\$ 0
6/30/2012	\$ 5,038,023	100%	\$ 0
6/30/2013	\$ 4,463,725	100%	\$ 0



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Funded Status and Funding Progress – The funded status of the plan as of the most recent valuation date of June 30, 2012, was as follows:

Actuarial accrued liability (AAL)	\$ 220,115,239
Actuarial value of plan assets	<u>193,484,731</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 26,630,508</u>
Funded ratio (actuarial value of plan assets/AAL)	87.9%
Covered payroll (active plan members)	\$ 31,579,609
UAAL as a percentage of payroll	84.3%

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.

### 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

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

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 \$1,693,629 for the year ended June 30, 2013. The additional discretionary funding payment approved by the Board for the year ended June 30, 2013, was \$3,500,000. During the year ended June 30, 2013, one hundred seventy-five (175) retirees participated in the health insurance plan, one hundred fifty (150) retirees participated in the dental plan, one hundred thirty-two (132) retirees participated in the vision plan, and one hundred forty-seven (147) retirees participated in the life insurance plan.

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

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

Annual OPEB Cost and Net OPEB Obligation – The ARC was determined as part of the June 30, 2011, actuarial valuation. The ARC rate was 16.3% of annual covered payroll. For the year ended June 30, 2013, the District’s annual other postemployment benefit cost (expense) is \$5,080,000. 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	\$	5,214,000
Interest on net OPEB obligation		226,000
Amortization of net OPEB obligation		(360,000)
Annual OPEB cost (expense)		5,080,000
Contributions made		(5,193,629)
Decrease in net OPEB obligation		(113,629)
Net OPEB obligation-beginning of year		6,074,269
Net OPEB obligation-end of year	\$	5,960,640

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, 2013, and the two preceding years was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/11	\$ 4,837,000	71.1%	\$ 3,697,240
6/30/12	\$ 4,982,000	52.3%	\$ 6,074,269
6/30/13	\$ 5,080,000	102.2%	\$ 5,960,640

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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	<u>12,450,000</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 40,986,000</u>
Funded ratio (actuarial value of plan assets/AAL)	23.3%
Covered payroll (active plan members)	\$ 31,896,000
UAAL as a percentage of payroll	128.5%

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 7.01% investment rate of return (net of administrative expenses), an annual medical cost trend rate of 5% - 9%, 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 15 (fifteen) years remaining as of June 30, 2013.

## 12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District manages and finances these risks by purchasing commercial insurance and has a \$1,000 to \$10,000 deductible for general and special property liability with limits of \$10 million and \$350 million, respectively. The District has a \$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, 2013, the District had no material claims outstanding for general liability or for workers' compensation cases.

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### 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.

### 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, included in revenue in the fiscal year ending June 30, 2012. The County Pool received \$5,935,930 in the second distribution from the Lehman Brothers settlement, on October 2, 2012, and \$7,739,246 on April 4, 2013. The District's share of these two recovery amounts was \$279,337 and \$364,199, respectively, and these amounts were included in revenue for the fiscal year ending June 30, 2013.

### 15. SUBSEQUENT EVENT

On November 7, 2013, the District issued \$30,000,000 through a private placement of taxable Certificates of Participation (Certificates) with Bay Area Headquarters Authority (BAHA) to finance its ownership interest of 75,000 square feet of office space at 375 Beale Street. The Certificates will be held by a Trustee in an escrow account until acquisition of the premises by the District, expected sometime in 2015. The escrow account will pay interest due during the escrow period using proceeds of the Certificates. Upon acquisition date the escrow period ends and the District will begin to make base rental payments until the payment principal date. Principal will amortize for 30 years from the acquisition date and expects to mature no later than November 1, 2045. The District may prepay the Certificates, all or in part, without penalty. The District agreed to contribute at least \$8.5 million from sale of its 939 Ellis Street office building payable at acquisition date at 375 Beale Street which will go towards its debt obligation.

The District and BAHA has also entered into a financing lease/sublease arrangement whereby at the date of acquisition the District will lease its office space to BAHA and BAHA will then sublease office space back to the District to secure payment on the Certificates.

**REQUIRED SUPPLEMENTARY INFORMATION**

# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## SCHEDULES OF FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2013

### 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)
6/30/2010	\$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%
6/30/2012	193,484,731	220,115,239	26,630,508	87.9%	31,579,609	84.3%

### 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%	31,896,000	128.5%

# 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, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Permit fees	\$ 23,748,000	\$ 23,748,000	\$ 25,443,396	\$ 1,695,396
Title V permit fees	3,714,000	3,714,000	3,627,490	(86,510)
Asbestos fees	1,800,000	1,800,000	2,465,047	665,047
Penalties and variance fees	1,700,000	1,700,000	1,670,702	(29,298)
Hearing board fees	20,000	20,000	17,400	(2,600)
State subvention	1,718,169	1,718,169	1,712,022	(6,147)
AB 2588 income	700,000	700,000	635,408	(64,592)
Special environmental projects	94,345	4,074,002	1,995,431	(2,078,571)
Federal grant -EPA	2,193,177	2,937,722	2,687,345	(250,377)
Federal grant - DHS	1,379,896	1,379,896	1,224,148	(155,748)
CMAQ Spare the Air	700,000	700,000	652,373	(47,627)
Other grants	387,174	637,984	744,480	106,496
Portable equipment registration program (PERP)	350,000	350,000	493,659	143,659
Interest	204,238	204,238	262,802	58,564
County apportionment	21,165,869	21,165,869	23,733,376	2,567,507
Miscellaneous	125,000	125,000	66,606	(58,394)
Total revenues	<u>59,999,868</u>	<u>64,974,880</u>	<u>67,431,685</u>	<u>2,456,805</u>
<b>EXPENDITURES</b>				
Executive office	2,602,781	2,655,152	2,692,205	(37,053)
Finance and administration	9,268,387	9,495,446	9,829,855	(334,409)
Information systems	4,295,026	4,619,840	3,908,909	710,931
Legal services	2,452,427	2,584,459	2,638,640	(54,181)
Outreach and incentives	3,948,837	4,949,756	3,704,929	1,244,827
Compliance and enforcement	11,583,321	11,815,145	10,203,004	1,612,141
Engineering	8,600,835	9,013,179	8,825,817	187,362
Planning and research	6,320,565	7,006,449	5,977,851	1,028,598
Technical services	8,640,820	10,161,771	9,321,831	839,940
Program distribution		4,230,467	2,265,669	1,964,798
Strategic incentives division	657,935	672,648	660,742	11,906
Total current expenditures	<u>58,370,934</u>	<u>67,204,312</u>	<u>60,029,452</u>	<u>7,174,860</u>
Capital outlay	1,580,677	1,934,922	2,580,592	(645,670)
Total expenditures	<u>59,951,611</u>	<u>69,139,234</u>	<u>62,610,044</u>	<u>6,529,190</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>48,257</u>	<u>(4,164,354)</u>	<u>4,821,641</u>	<u>8,985,995</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in			505,454	(505,454)
Transfers out	(48,257)	(48,257)		48,257
Total other financing sources	<u>(48,257)</u>	<u>(48,257)</u>	<u>505,454</u>	<u>(457,197)</u>
<b>EXTRAORDINARY ITEM</b>				
Recovery on Lehman Brothers Loss			152,519	152,519
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$</u>	<u>\$ (4,212,611)</u>	<u>5,479,614</u>	<u>\$ 8,681,317</u>
<b>BEGINNING BUDGETARY FUND BALANCE</b>			<u>19,719,528</u>	
<b>ENDING BUDGETARY FUND BALANCE</b>			<u>\$ 25,199,142</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, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
TFCA/MSIF DMV fee	\$ 42,420,312	\$ 53,139,058	\$ 29,282,538	\$(23,856,520)
Carl Moyer Program	7,942,794	8,531,142	7,704,566	(826,576)
AB 434/923 others	330,634	330,634	872,415	541,781
CA Goods Movement revenue & other programs	<u>15,948,019</u>	<u>39,635,831</u>	<u>29,627,877</u>	<u>(10,007,954)</u>
Total revenues	<u>66,641,759</u>	<u>101,636,665</u>	<u>67,487,396</u>	<u>(34,149,269)</u>
<b>EXPENDITURES</b>				
TFCA/MSIF, Carl Moyer, & other programs:				
Program distribution	41,328,380	45,569,988	31,930,260	13,639,728
Smoking vehicle	488,344	309,066	715,624	(406,558)
Intermittent control	1,056,398	1,305,262	1,064,509	240,753
TFCA administration	1,250,535	1,382,035	973,189	408,846
Mobile source incentive	624,330	637,387	568,734	68,653
Regional BikeShare	3,254,972	6,428,128	2,512,668	3,915,460
CarSharing Incentive Program	388,516	388,752	16,260	372,492
Regional Electric Vehicle Deployment	1,995,961	4,673,912	1,003,937	3,669,975
Enhanced mobile source inspection		1,000,000	513,959	486,041
California Goods Movement Program & other programs:				
Grant administration	434,951	456,579	965,567	(508,988)
Truck Program/LESBP	<u>15,867,629</u>	<u>39,533,813</u>	<u>27,208,252</u>	<u>12,325,561</u>
Total expenditures	<u>66,690,016</u>	<u>101,684,922</u>	<u>67,472,959</u>	<u>34,211,963</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(48,257)</u>	<u>(48,257)</u>	<u>14,437</u>	<u>62,694</u>
<b>OTHER FINANCING USES</b>				
Transfers in	48,257	48,257		(48,257)
Transfers out			<u>(505,454)</u>	<u>(505,454)</u>
Total other financing uses	<u>48,257</u>	<u>48,257</u>	<u>(505,454)</u>	<u>(553,711)</u>
<b>EXTRAORDINARY ITEM</b>				
Recovery on Lehman Brothers Loss			<u>491,017</u>	<u>491,017</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$</u>	<u>\$</u>		<u>\$</u>
<b>BEGINNING BUDGETARY FUND BALANCE</b>				
<b>ENDING BUDGETARY FUND BALANCE</b>			<u>\$</u>	



# BAY AREA AIR QUALITY MANAGEMENT DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2013

### 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	\$ 67,431,685	\$ 67,487,396
Revenue recognition adjustments	<u>(2,038,861)</u>	<u>5,150,985</u>
Revenues – GAAP Basis	<u>\$ 65,392,824</u>	<u>\$ 72,638,381</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, 2013

<u>Programs</u>	<u>Salaries and Benefits</u>	<u>Services and Supplies</u>	<u>Program Distribution</u>	<u>Total</u>
Program distribution			\$ 31,930,260	\$ 31,930,260
Smoking vehicle	\$ 705,618	\$ 10,006		715,624
Intermittent control	402,187	662,322		1,064,509
TFCA administration	791,633	181,556		973,189
Regional BikeShare	166,910	2,345,758		2,512,668
CarSharing Incentive Program	16,260			16,260
Regional Electric Vehicle Deployment	184,280	819,657		1,003,937
Enhanced mobile source inspect	513,959			513,959
Mobile source incentive	<u>558,897</u>	<u>9,837</u>		<u>568,734</u>
 Total expenditures	 <u>\$ 3,339,744</u>	 <u>\$ 4,029,136</u>	 <u>\$ 31,930,260</u>	 <u>\$ 39,299,140</u>