

**BAY AREA AIR QUALITY
MANAGEMENT DISTRICT**

**Basic Financial Statements
With Independent Auditor's Report**

For the Year Ended June 30, 2025



BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Basic Financial Statements
For the Year Ended June 30, 2025

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Independent Auditor's Report

The Board of Directors of
Bay Area Air Quality Management District

Report on the Audit of the Financial Statements

Opinions

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, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2025, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 1(n) to the basic financial statements, on July 1, 2024, the District adopted the new accounting and disclosure requirements of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 13 and the required supplementary information on pages 50 to 56 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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

Management is responsible for the other information included in the annual report. The other information comprises the supplementary information on pages 57 to 61 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2026, 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 solely 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 the effectiveness of the District's 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.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
March 30, 2026

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2025

(Unaudited)

This discussion and analysis of the Bay Area Air Quality Management Air District (Air District) financial performance provides an overview of the Air District's financial activities for the fiscal year ended June 30, 2025. Please read it in conjunction with the accompanying basic financial statements and notes.

A. Financial Highlights

- At the close of the fiscal year 2024-2025, the Air District's net position is \$491,449,172. The total net position includes \$48.9 million for net investment in capital assets, \$268.5 million for restricted net position and \$174.1 million for the unrestricted net position.
- The assets and deferred outflows of resources of the Air District exceeded its liabilities and deferred inflows of resources at the close of the fiscal year 2024-25, increasing the Air District's overall (net position) by \$135.4 million or 38%.
- The Air District's governmental funds reported a total fund balance of \$519,308,723; \$281,066,991 for General Fund and \$238,241,732 for the Special Revenue Fund. The entire fund balance of the Special Revenue Fund of \$238,241,732 is reserved for air quality grants and projects. The \$281,066,991 General Fund balance consists of \$30,225,196 representing the restricted fund balance, \$189,098,094 committed or non-spendable and the remaining balance of \$61,743,701 belongs to unassigned. Of the \$188.4 million committed, \$109.6 million represents the penalty assessment funds allocated to support the Community Benefits Penalty Funds Policy.
- In May 2024, the Board of Directors adopted the Community Benefit Penalty Funds Policy, aiming to reinvest penalty funds from air quality violations into the communities most affected by them. This policy ensures that significant portions of collected penalties are allocated to local projects designed to reduce pollution and enhance public health. In fiscal year 2025, the Air District collected \$90.1 million in penalty assessments. Of this amount, \$4 million was allocated to the General Fund to support general operations for fiscal year 2024–2025. The remaining \$86.1 million was allocated as follows: \$68.7 million to Local Benefit projects and \$17.4 million to Regional Benefit projects. A total of \$78.4 million will directly support community projects, while up to 9% may be used by the Community Investment Office to administer, manage, and develop the program.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2025

(Unaudited)

A. Financial Highlights Continued

Table 1 presents the General Fund detail of fund balances as of June 30, 2025, and June 30, 2024.

Table 1. General Fund Balances as of June 30, 2025, and 2024

Category	General Fund June 30, 2025	General Fund June 30, 2024	Increase/ (Decrease)
Fund Balances:			
Nonspendable:			
Prepaid Expenses	\$ 738,953	\$ 387,826	\$ 351,127
Restricted:			
Air Quality Grants and Projects	627,805	639,505	(11,700)
Post-Employment Benefits	3,855,598	3,775,374	80,224
Debt service	3,197,489	3,012,050	185,439
Pension Prefunding Trust	22,544,304	15,980,233	6,564,071
Committed:			
Air Quality Grants and Projects	13,378,757	18,571,659	(5,192,902)
Other Committed	65,402,649	38,312,398	27,090,251
Local Benefit Fund	87,385,621	16,869,990	70,515,631
Regional Benefit Fund	22,192,114	4,383,794	17,808,320
Unassigned:	<u>61,743,701</u>	<u>71,468,611</u>	<u>(9,724,910)</u>
Total Fund Balance	<u>\$ 281,066,991</u>	<u>\$ 173,401,440</u>	<u>\$ 107,665,551</u>

B. Overview of the Financial Statements

This discussion and analysis provides an introduction to the Air District's basic financial statements.

These statements include three key components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the basic financial statements.

The report also contains required and other supplementary information that supports a more comprehensive understanding of the Air District's financial position.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2025

(Unaudited)

B. Overview of the Financial Statements (continued)

Government-Wide Financial Statements

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

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

The Statement of Net Position reports all assets, deferred outflows of resources, liabilities owed by the Air District, and deferred inflows of resources on a full accrual basis. The difference between the assets held and deferred outflows of resources, and the liabilities owed and deferred inflows of resources, is reported as Net Position. The net position total is comparable to total stockholder's equity presented on the balance sheet of a private enterprise. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Air District is improving or deteriorating. The Statement of Net Position as of June 30, 2025, is presented on page 14.

The Statement of Activities reports the net cost of the Air 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 Air District. The statement begins with a column that identifies the total cost of these programs followed by columns that summarize the Air District's program revenues by major category. The difference between expenses and revenues represents the net cost or benefit of the Air 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 15.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Bay Area Air Quality Management Air 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 Air District's operations in more detail than the government-wide statements by providing information about the Air District's major funds. The Air District maintains two governmental funds: the General Fund and Special Revenue Fund.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2025

(Unaudited)

B. Overview of the Financial Statements (continued)

Governmental Funds

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

Balance Sheets prepared under the modified accrual basis of accounting have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. Specifically, cash and receivables that are deemed collectible within a very short period of time are reported on the balance sheet. Capital assets such as land and buildings are not reported in governmental fund financial statements. Fund liabilities include amounts that will be paid within a very short period of time after the end of the fiscal year. Long-term liabilities such as outstanding bonds are not included. The difference between a fund's total assets, deferred outflow of resources, total liabilities, and deferred inflows of resources represents the fund balance. The unassigned portion of fund balance represents the amount available to finance future activities. The Air District's governmental funds balance sheets can be found on page 16.

The Statement of Revenues, Expenditures, and Changes in Fund Balance include only revenues and expenditures that were collected in cash or paid with cash during the fiscal year or very shortly after the end of the fiscal year. The governmental funds Statements of Revenues, Expenditures, and Changes in Fund Balances can be found on page 18.

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 to the Government-Wide Statement of Net Position is on page 17. 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 19.

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 20 to 49.

Required and Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Air District's other post-employment benefit (OPEB) liabilities, retirement pension liabilities held by California Public Employees Retirement System (PERS), general fund and special revenue fund budget comparison schedules, and supplementary information concerning the Air District's TFCA and Carl Moyer program expenditures, services area and division, schedule of expenditures, indirect cost schedule, and penalty assessment allocation schedule on pages 50 to 61.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2025

(Unaudited)

C. Government-Wide Financial Analysis

The government-wide financial analyses focus on net position and changes in net position of the Air District's governmental activities. Table 2 below shows a condensed Statement of Net Position as of June 30, 2025, compared to the fiscal year ended June 30, 2024.

Table 2. Statement of Net Position as of June 30, 2025, and June 30, 2024

	Governmental Activities June 30, 2025	Governmental Activities June 30, 2024	Increase/ (Decrease)
Current & Other Assets	\$ 825,248,025	\$ 618,777,716	\$ 206,470,309
Capital Assets	67,376,828	66,914,568	462,260
Total Assets	<u>892,624,853</u>	<u>685,692,284</u>	<u>206,932,569</u>
Deferred Outflows of Resources	42,461,513	50,405,422	(7,943,909)
Current Liabilities	307,788,389	236,137,170	71,651,219
Noncurrent Liabilities	125,820,984	128,404,042	(2,583,058)
Net OPEB Liability	2,204,365	6,283,387	(4,079,022)
Total Liabilities	<u>435,813,738</u>	<u>370,824,599</u>	<u>64,989,139</u>
Deferred Inflows of Resources	7,823,456	9,200,605	(1,377,149)
Net Position			
Invested in Capital Assets	48,857,333	47,450,794	1,406,539
Restricted	268,466,928	231,912,989	36,553,939
Unrestricted net position	174,124,911	76,708,719	97,416,192
Total Net Position	<u>\$ 491,449,172</u>	<u>\$ 356,072,502</u>	<u>\$ 135,376,670</u>

On June 30, 2025, the Air District's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources by \$491.4 million, an increase of \$135.4 million over the previous fiscal year.

As noted earlier, total net position may serve over time as a useful indicator of the Air District's financial position. Restricted net position is to be used for specific programs and purposes according to legal terms and conditions. The remaining portion of the Air District's net position is unrestricted and at the end of the fiscal year had a positive balance of \$174.1 million. This change results from an overall increase in total assets driven by various sources, including permit fees, penalty assessment, property taxes, investment gains, and grant funding. Additionally, deferred inflows of resources contributed to the increase. However, these gains were partially offset by pension liability, deferred outflows of resources and other post-employment benefit (OPEB) liabilities, reflecting continued contributions, investment earnings, and changes in actuarial assumptions

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2025

(Unaudited)

C. Government-Wide Financial Analysis (continued)

Table 3 below provides changes in net position for the fiscal year ending June 30, 2025, compared with the fiscal year ended June 30, 2024.

Table 3. Statement of Activities for Fiscal Years 2024-25 and 2023-24

	Governmental Activities FY 2024-25	Governmental Activities FY 2023-24	Dollar Increase / (Decrease)	Percentage Increase / (Decrease)
Revenues:				
Program Revenue:				
Charges for services	\$ 161,203,003	\$ 94,301,662	\$ 66,901,341	71%
Operating grants and contributions	119,291,319	102,936,759	16,354,560	16%
Total Program Revenue	280,494,322	197,238,421	83,255,901	42%
General Revenues:				
County Apportionments	49,888,444	47,524,893	2,363,551	5%
Investment income not restricted for a specific program	22,440,095	12,679,747	9,760,348	77%
Other	414,391	2,879,522	(2,465,131)	-86%
Total General Revenues	72,742,930	63,084,162	9,658,768	15%
Total Revenues	353,237,252	260,322,583	92,914,669	36%
Expenses:				
General Government	133,474,166	121,668,458	11,805,708	10%
California Goods Movement Program	322,165	2,912,105	(2,589,940)	-89%
Vehicle Settlement	2,171,766	3,278,117	(1,106,351)	-34%
Debt Service	696,785	773,437	(76,652)	-10%
TFCA/MSIF & Other Program	44,797,209	36,769,870	8,027,339	22%
Distribution				
Carl Moyer Program	36,398,491	28,967,239	7,431,252	26%
Total Expenses	217,860,582	194,369,226	23,491,356	12%
Change in Net Position	135,376,670	65,953,357	69,423,313	105%
Net Position-beginning of year	356,072,502	290,119,145	65,953,357	23%
Net Position-ending of year	\$ 491,449,172	\$ 356,072,502	\$ 135,376,670	38%

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2025

(Unaudited)

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 Air District's net position changed during the fiscal year 2024-2025. 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 Air 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 Air 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.

On June 30, 2025, the Air District's governmental activities reported ending net position of \$491,449,172, an increase of \$135,376,670 in comparison to the prior year. The primary reason is due to increases in both program revenues and general revenues. Program revenues include grant incentive funds and charges for services mainly relates to permit fees and general revenues includes penalty assessment, property taxes revenues, and investment gains from market fluctuations related to the San Mateo County's investment pool.

- Overall governmental revenues are \$353,237,252; an increase of \$92,914,669 from the prior year. This growth is driven by a \$83.3 million increase in program revenue and a \$9.7 million increase in general revenue. The rise in program revenue is primarily attributed to a \$66.0 million increase in penalty assessments, along with additional funding from the Transportation Fund for Clean Air (TFCA), the Carl Moyer Program, and other federal grants. General revenue growth is primarily due to a \$2.4 million increase in county apportionment revenue (property tax), a \$4.3 million rise in interest revenue, and a \$5.5 million fair market value adjustment in the San Mateo County investment pool to reflect market fluctuations and lower investment earnings. These gains were partially offset by a \$2.6 million decline in California Goods Movement revenue, \$3.0 million decrease in State Grants and a \$1 million decrease in Vehicle Settlement.
- Overall governmental expenditures are \$217,860,582; an increase of \$23,491,356 over the prior year. Of the \$23.5 million increase, approximately \$15.5 million is attributed to higher grant incentive activities for programs such as the Carl Moyer AB134 Community Incentive Program, the California Goods Movement Program, and TFCA and Mobile Source Incentive Funds. This increase was partially offset by a \$1.1 million and \$2.6 million decrease in Vehicle Settlement and California Goods Movement. Additionally, an \$11.8 million increase in the General Government Program was driven primarily by rising personnel costs, and increased expenditures for services and supplies. This increase offset by decrease in Debt Service and program distribution in general fund.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2025

(Unaudited)

D. General Fund Financial Analysis

Figure 1 below provides a pie chart of the Air District's General Fund revenues (net of other financing sources) for fiscal year 2024-2025. The General Fund's total revenue of \$241,491,980 in fiscal year 2024-25, reflecting a \$80.0 million increase from prior year. This growth is primarily driven by increases from penalty assessments \$66 million, permit fees \$5 million, property tax \$2.4 million, gain from interest earnings and investment valuation \$5.9 million, and a decrease of \$2.3 million in other revenue.

Program revenue sources include Permit, AB2588, Title V, and Asbestos fees. In fiscal year 2024-25, permit/fee revenue represented the largest share of General Fund revenue at \$70.5 million, followed by property tax revenue at \$49.9 million, grants at \$13.7 million, other revenues at \$17.3 million, and penalty assessment at \$90.2 million.

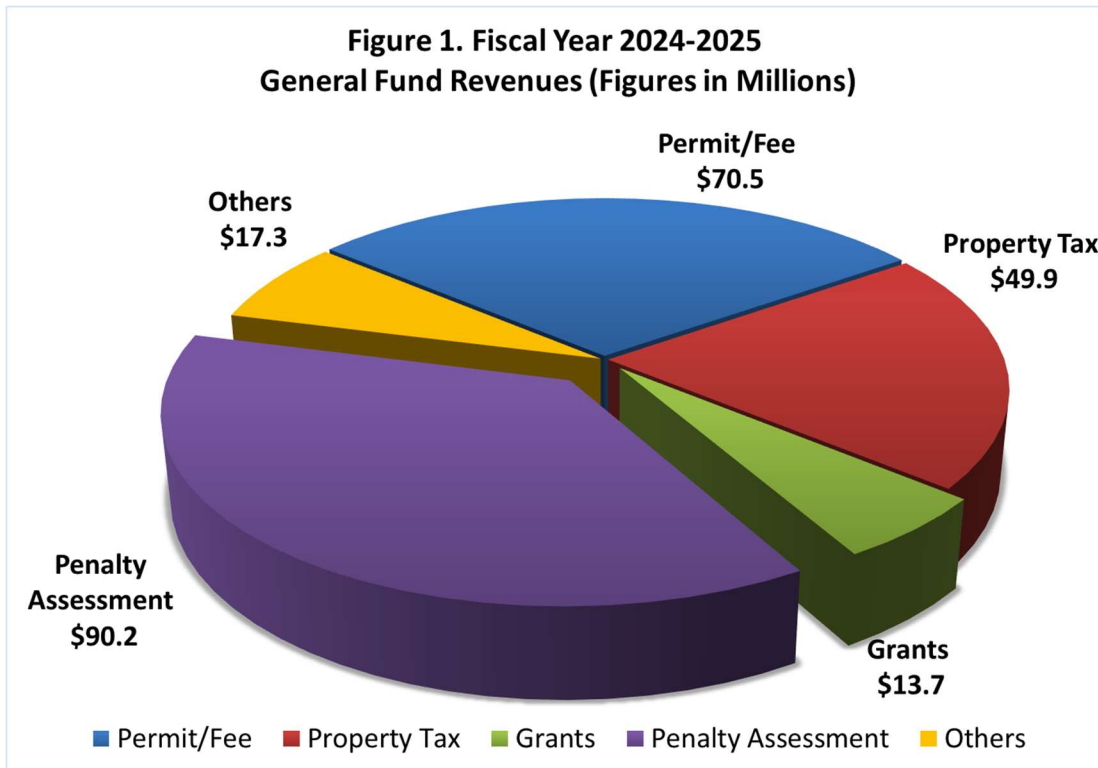


Figure 2 below provides a graph of General Fund operating expenditures (net of other financing uses) for fiscal year 2024-25. General Fund operating expenditures totaled \$136,070,055 which is an increase of \$17 million over fiscal year 2023-24. This increase is mainly due to increased personnel and benefit costs, increased activities related various programs service and supplies costs, offset by decrease in capital expenditures, and program distribution.

General Fund expenditures represent the Air District's general government operating costs categorized: Salaries & Benefits (97.1 million), Services & Supplies (28.7 million), Capital Outlay (\$7.2 million), Debt Service Payments (\$1.8 million) and Program Distribution (\$1.3 million) are not operating divisions, but rather categories capturing expenditures related to capital assets, certificate of participation notes (COP) financing, and special projects, respectively.

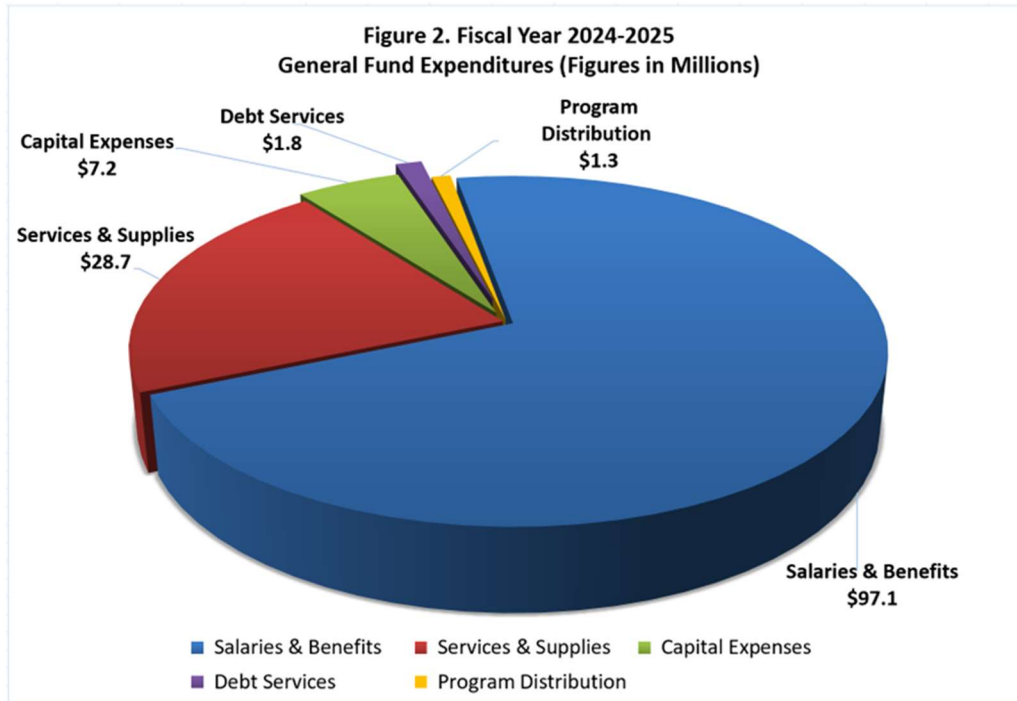
BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2025

(Unaudited)

D. General Fund Financial Analysis Continued



General Fund operating revenues exceeded operating expenditures by \$105.4 million in fiscal year 2024-25.

The General Fund is the operating fund of the Air District and at the end of the fiscal year, the total fund balance of the General Fund was \$281.1 million. The committed fund balance was \$188.4 million, restricted \$30.2 million, non-spendable \$0.7 million, and the remaining \$61.7 million is unassigned. The unassigned fund balance represents 45.4% of the total General Fund expenditures, while the total fund balance represents 206.6% of the total General Fund expenditures. The Air District has available funds for unanticipated emergencies.

The FY 2024-25 amended budget compared to the adopted budget reflect an increase in appropriations of \$19.2 million (expenditures). The budget increase reflects the Governing Board's approval to carry over prior year appropriations for multi-year projects and obligations into the current fiscal year. The FY 2024-25 actual revenues were above the final budget by \$98.1 million resulting in additional revenues related to penalty assessment, property tax, permit-related fees, and interest earned.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2025

(Unaudited)

E. Capital Assets

Capital assets include land, buildings, lab equipment, air monitoring stations, computers, office furniture and fleet vehicles of the Air District. As of June 30, 2025, the Air District's investment in capital assets was \$67.4 million net of accumulated depreciation, an increase of \$0.5 million or 0.7% from the prior year. This increase is a combination of \$6.7 million is depreciation expense; offset by approximately \$7.2 million in additional assets consisting of enterprise application, lease assets, and equipment purchases.

F. Long-Term Liabilities

At the end of the current fiscal year, the Air District had total long-term liabilities of \$128.1 million. Of this amount, \$106.0 million comprises of the Air District's Net Pension Liability, \$2.2 million is related to Net OPEB Liability; 15.7 million pertains to the Air District's outstanding Certificate of Participation (COPs); \$2.3 million is related to compensated absences; and the remaining balance of \$1.9 million is related to lease obligations. The net decrease in long term liability is 6.7 million. It is mainly related to increases in the compensated absences \$1.5 million and offset by decrease in pension liability (\$3.3 million), Net OPEB Liability (\$4 million), Lease obligation (\$0.3 million) and COPS (\$0.5 million).

G. Economic Factors and Next Year's Budget

The Fiscal Year 2025-2026 adopted General Fund budget of \$165 million is balanced and includes a \$16.4 million transfer from General Fund reserves. This transfer supports the addition of 23 new Full-Time Equivalent (FTE) positions and six Limited-Term Contract Employees (LTCEs) aligned with the Air District's Strategic Plan goals, with a strong emphasis on environmental justice, community engagement, and outreach. The reserve transfer also continues prior-year staffing investments to strengthen critical programs and service delivery, funds one-time initiatives to modernize essential services, enhances enforcement capabilities, and supports the acquisition of necessary capital assets. Even with these short-term investment strategies, the Air District maintains a healthy reserves balance.

Approximately 29% of the Air District's General Fund revenues are derived from property taxes levied across nine Bay Area counties, while 42% comes from permit fees charged to local businesses. As a result, General Fund revenues are sensitive to fluctuations in the state and local economy. Property tax revenue projections remain stable, reflecting increased estimates driven by a 2% statutory inflationary adjustment to the property tax roll and continued housing market activity. Permit fee revenues are also projected to increase, consistent with the Air District's cost recovery policy, which ensures that regulatory fees are recovering the costs of providing services.

As part of efforts to address operational capacity and reduce permitting delays, the Board of Directors approved the Permit Backlog Reduction Plan in September 2025 to support the addition of 15 full-time equivalent positions and 14 limited-term positions. These staffing increases are expected to support improved permit processing timeliness.

H. Request for Information

This financial report is designed to provide a general overview of the Air District's finances for all those with an interest in the Air District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Stephanie Osaze, Finance Director, at 375 Beale Street, Suite 600, San Francisco, CA 94105.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Statement of Net Position

June 30, 2025

**Governmental
Activities**

Assets:	
Cash and cash equivalents	\$ 254,066,647
Restricted cash and cash equivalents	516,910,348
Restricted cash and cash equivalents - Pension Prefunding Trust	22,544,304
Receivables	25,820,989
Due from other governments	4,937,913
Prepaids, deposits, and other assets	967,824
Capital assets:	
Non-depreciable	3,974,267
Depreciable	127,247,379
Lease asset	5,334,769
Less: accumulated depreciation	<u>(69,179,587)</u>
Total capital assets, net of depreciation	<u>67,376,828</u>
Total Assets	<u>892,624,853</u>
Deferred Outflows of Resources	<u>42,461,513</u>
Liabilities:	
Accounts payable	11,302,871
Accrued liabilities	3,642,131
Due to other governments	208,079
Other liabilities	3,391,766
Unearned revenue	281,560,103
Long-term liabilities	
Portion due within one year:	
Compensated absences	6,730,286
Certificates of participation	500,000
Lease obligations	453,153
Portion due after one year:	
Compensated absences	2,276,195
Certificates of participation	15,700,000
Lease obligations	1,866,342
Net pension liability	105,978,447
Net OPEB liability	2,204,365
Total Liabilities	<u>435,813,738</u>
Deferred Inflows of Resources	<u>7,823,456</u>
Net Position:	
Net investment in capital assets	48,857,333
Restricted for:	
Air quality grants and projects	238,869,537
Post-employment benefits	3,855,598
Debt service	3,197,489
Pension Prefunding Trust	22,544,304
Unrestricted	174,124,911
Total Net Position	<u>\$ 491,449,172</u>

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Statement of Activities
Year Ended June 30, 2025

Functions/programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Primary government	\$ 133,474,166	\$ 158,711,794	\$ 15,374,973	\$ 40,612,601
California Goods Movement Program	322,165	-	377,480	55,315
Vehicle settlement	2,171,766	2,491,209	-	319,443
Interest expense	696,785	-	-	(696,785)
TFCA / MSIF, CPM & other programs:				
TFCA / MSIF & other program distribution	44,797,209	-	66,612,975	21,815,766
Carl Moyer Program	36,398,491	-	36,925,891	527,400
Total Governmental Activities	<u>\$ 217,860,582</u>	<u>\$ 161,203,003</u>	<u>\$ 119,291,319</u>	<u>\$ 62,633,740</u>
General revenues:				
County apportionment				49,888,444
Investment income (loss) not restricted for a specific program				22,440,095
Other				414,391
Total General Revenues				<u>72,742,930</u>
Change in Net Position				135,376,670
Net Position – Beginning of Year, Restated				356,072,502
Net Position – End of Year				<u>\$ 491,449,172</u>

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Balance Sheet
Governmental Funds
June 30, 2025

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental</u>
Assets:			
Cash and cash equivalents	\$ 254,066,647	\$ -	\$ 254,066,647
Restricted cash and cash equivalents	7,053,087	509,857,261	516,910,348
Restricted cash and cash equivalents - Pension Prefunding Trust	22,544,304	-	22,544,304
Receivables	13,624,321	12,196,668	25,820,989
Due from other governments	4,665,857	272,056	4,937,913
Due from other funds	9,734,198	-	9,734,198
Prepays, deposits, and other assets	932,431	35,393	967,824
Total Assets	<u>312,620,845</u>	<u>522,361,378</u>	<u>834,982,223</u>
Liabilities and Fund Balances:			
Accounts payable	2,740,370	8,562,501	11,302,871
Accrued liabilities	3,957,419	-	3,957,419
Due to other governments	208,079	-	208,079
Due to other funds	-	9,734,198	9,734,198
Other liabilities	3,167,168	224,598	3,391,766
Unearned revenue	15,961,754	265,598,349	281,560,103
Total Liabilities	<u>26,034,790</u>	<u>284,119,646</u>	<u>310,154,436</u>
Deferred Inflows of Resources:			
Unavailable revenue	5,519,064	-	5,519,064
Total Deferred Inflows of Resources	<u>5,519,064</u>	<u>-</u>	<u>5,519,064</u>
Fund Balances:			
Nonspendable:			
Prepaid items	738,953	-	738,953
Restricted:			
Air quality grants and projects	627,805	238,241,732	238,869,537
Postemployment benefits	3,855,598	-	3,855,598
Debt service	3,197,489	-	3,197,489
Pension Prefunding Trust	22,544,304	-	22,544,304
Committed:			
Air quality grants and projects	13,378,757	-	13,378,757
Other committed	65,402,649	-	65,402,649
Local Community Benefit Fund	87,385,621	-	87,385,621
Regional Community Benefit Fund	22,192,114	-	22,192,114
Unassigned	61,743,701	-	61,743,701
Total Fund Balances	<u>281,066,991</u>	<u>238,241,732</u>	<u>519,308,723</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 312,620,845</u>	<u>\$ 522,361,378</u>	<u>\$ 834,982,223</u>

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Position
 June 30, 2025

Total Fund balances - Governmental Funds	\$ 519,308,723
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$136,556,415 and accumulated depreciation is \$69,179,587.	67,376,828
Receivables that will be collected in the following year and therefore are not available soon enough to pay for current period's expenditures and therefore are not reported in the governmental funds.	5,519,064
Long-term liabilities, including legal settlements, compensated absences, COPs liability, and capital lease obligation are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(27,210,688)
Proportionate share of net pension liability and related deferred inflow/outflow of resources are not reported in the governmental funds.	(74,853,301)
Net other post-employment benefits asset and related deferred inflow/outflow of resources are not reported in the governmental funds.	1,308,546
Total Net Position - Governmental Activities	<u>\$ 491,449,172</u>

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2025

	General	Special Revenue	Total Governmental
Revenues:			
TFCA / MSIF DMV fees	\$ -	\$ 57,338,945	\$ 57,338,945
Permit fees	66,739,431	-	66,739,431
County apportionment	49,888,444	-	49,888,444
California Goods Movement	-	377,480	377,480
Carl Moyer Program	-	36,925,891	36,925,891
Federal grants	4,930,957	930,845	5,861,802
Penalties and variance fees	90,211,513	-	90,211,513
Asbestos fees	3,728,850	-	3,728,850
State subvention	1,701,561	-	1,701,561
State and other grants	8,742,455	8,343,185	17,085,640
Portable equipment registration program (PERP)	1,780,668	-	1,780,668
Vehicle settlement	-	2,491,209	2,491,209
Other revenues	414,391	-	414,391
Interest and investment gain	11,745,426	9,086,385	20,831,811
Interest and investment gain Pension Prefunding Trust	1,608,284	-	1,608,284
Total Revenues	241,491,980	115,493,940	356,985,920
Administration:			
Salaries and benefits	97,105,539	7,779,864	104,885,403
Services and supplies	28,650,859	4,730,586	33,381,445
Program distribution	1,306,795	71,179,181	72,485,976
Debt service:			
Principal	1,119,501	-	1,119,501
Interest	696,785	-	696,785
Capital outlay	7,190,576	-	7,190,576
Total Expenditures	136,070,055	83,689,631	219,759,686
Excess of Revenues Over Expenditures	105,421,925	31,804,309	137,226,234
Other Financing Sources (Uses):			
Transfers in	2,068,404	-	2,068,404
Transfers out	-	(2,068,404)	(2,068,404)
Leases	175,222	-	175,222
Total Other Financing Sources (Uses)	2,243,626	(2,068,404)	175,222
Net Changes in Fund Balances	107,665,551	29,735,905	137,401,456
Fund Balances, July 1, 2024	173,401,440	208,505,827	381,907,267
Fund Balances, June 30, 2025	\$ 281,066,991	\$ 238,241,732	\$ 519,308,723

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
 and Changes in Fund Balances to the Statement of Activities
 Year Ended June 30, 2025

Net Changes in Fund Balances - Governmental Funds	\$137,401,456
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	462,260
Proceeds of new debt and repayment on debt principal are reported as expenditures and other financing sources and uses in the governmental funds, but constitute reductions to liabilities in the statement of net position.	944,279
In the statement of activities, compensated absences are measured by the amounts the employees earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(495,981)
Because certain revenues will not be collected soon enough to be considered "available" revenues for this year.	(3,748,668)
Actuarial pension expense is recognized in the government wide statements and actual pension contributions are reclassified in the current year as deferred outflow of resources.	(2,271,666)
Actuarial OPEB revenue is recognized in the government wide statements and actual OPEB contributions are reclassified in the current year as deferred outflow of resources.	3,084,990
Changes in Net Position of Governmental Activities	<u>\$135,376,670</u>

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

(1) Summary of Significant Accounting Policies

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 following summary of the more significant accounting policies of the District is provided to assist the reader in interpreting the basic financial statements presented in this section. These policies, as presented, should be viewed as an integral part of the accompanying basic financial statements.

(a) Reporting Entity

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

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

The District is responsible for regulatory stationary sources of air pollution in seven counties: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, and Santa Clara; and portions of two other counties: Southwestern Solano and Southern Sonoma. The District is governed by a 24 (twenty-four) member Board of Directors that includes representatives from all of the above counties.

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

(b) Government-wide and Fund Financial Statements

The District's basic financial statements consist of fund financial statements and government-wide statements which are intended to provide an overall view of the District's finances. The government-wide financial statements, which are the statement of net position and the statement of activities, report information on all District funds excluding the effect of interfund activities. Governmental activities are normally supported by taxes and intergovernmental revenues.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column.

(c) *Basis of Accounting*

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual, i.e., both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities.

The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 (sixty) days after year-end.

Expenditures for governmental funds are generally recognized when the related fund liability is incurred, except debt service expenditures and expenditures related to compensated absences which are recognized when payment is due. Governmental capital asset acquisitions are reported as expenditures in the governmental funds.

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

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 the 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, OHS 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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

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).

(d) Fund Accounting

The District’s accounting system is organized and operated on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. A description of the activities of the major funds is provided below:

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 Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose of the individual funds.

(e) Cash and Investments

Cash includes amounts in deposits with the San Mateo County Investment Fund (County Pool), and funded in the California Employers’ Pension Prefunding Trust (“CEPPT”).

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District’s securities portfolio is held by the County of San Mateo Treasurer. All District investments are stated at fair value based on quoted market prices.

(f) 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.

(g) Short-term Interfund Receivables/Payables

Occasionally, a fund will not have sufficient cash to meet its financial obligations and a cash transfer will be required to enable that fund to pay its outstanding invoices and other obligations. These temporary borrowings between funds are classified as “due from other funds” or “due to other funds” on the governmental funds balance sheet. Interfund balances within governmental activities are eliminated on the government-wide statement of net position.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

(h) *Capital Assets*

Capital assets, which include land, depreciable assets, the right to use leased vehicles and buildings, and construction in progress, are reported in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation, in which case they are recorded at estimated market value at the date of receipt. The District utilizes a capitalization threshold of \$5,000. Donated capital assets are recorded at their estimated fair value at the date of donation.

Projects under construction are recorded at cost as construction in progress and transferred to the appropriate asset account when substantially complete. Repair and maintenance costs are charged to expense when incurred. Equipment disposed of, or no longer required for its existing use, is removed from the records at actual or estimated historical cost, net of accumulated depreciation.

All capital assets, except land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings, grounds & improvements	15 - 20
Equipment	5 - 15

(i) *Deferred Outflows / Deferred Inflows*

In addition to assets, the financial statements report separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Contributions made to the District's pension plan after the measurement date but before the fiscal year-end are recorded as a deferred outflow of resources. Additional factors involved in the calculation of the District's pension expense and net pension liability include the differences between expected and actual experience, changes in assumptions, and differences between projected and actual investment earnings. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods. See Note 7 for further details related to these pension deferred outflows and inflows. In the fund financial statements, the District reports unavailable revenues as a deferred inflow of resources.

(j) *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.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

The District, in implementation of GASB 101, has reported a liability in the government-wide statements for current year compensatory time earned to be paid in future years. 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.

(k) Pensions

The District participates in the Bay Area Air Quality Management District Miscellaneous Plan (the Plan), an agent multiple-employer defined benefit pension plan maintained by the California Public Employees' Retirement System (CalPERS). For purposes of measuring the net pension liability, pension expense, and deferred outflows/inflows of resources related to pensions, information about the fiduciary net position of the Plan, and additions to/deductions from the Plan's fiduciary net position, have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(l) 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.

(m) 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.

When an expenditure is incurred for purposes for which both restricted and unrestricted net position is available, the District considers restricted funds to have been spent first.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

The governmental fund statements utilize a fund balance presentation. Fund balances are categorized as Nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable Fund Balance – This category presents the portion of fund balance that cannot be spent because it is either not in a spendable form or it is legally or contractually required to be maintained intact.

Restricted Fund Balance – This category presents the portion of the fund balance that is for specific purposes stipulated by constitution, external resource providers, or enabling legislation.

Committed Fund Balance – This category presents the portion of the fund balance that can be used only for the specific purposes determined by a formal action (Resolution) of the District’s highest level of decision-making authority. For the District, this level of authority lies with the Board of Directors.

Assigned Fund Balance – This category presents the portion of the fund balance that is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. For the District, balances can be assigned by management or through the budget process. As of June 30, 2025, the District had no assigned fund balance.

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

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers assigned amounts to be reduced first before the unassigned amounts.

(n) New Pronouncements

For the fiscal year ended June 30, 2025, the District implemented GASB issued Statement No. 101, Compensated Absences which supersedes GASB Statement 16 Accounting for Compensated Absences, effective for fiscal years beginning after December 15, 2023. The updated standard addresses accounting and government-wide financial reporting of compensated absences and associated salary-related payments including certain defined contributions pension and defined contribution other postemployment benefits (OPEB). Please refer to footnote 1(j), which describes the change in the accounting policy for Compensated Absences.

Implementation requires the District to recognize an allowance for compensatory time which has been earned, unused, and is more than likely to be used. Whereas the prior standard the District did not accrue a liability for unused compensatory time since accumulated compensatory time is not a vested benefit. Current year adoption impact is an increase of \$322,859 to Accrued Payroll Liabilities and Compensation Absence expenditures in the government-wide financial statements. There was no material effect on the beginning net position from the implementation of this standard.

For the fiscal year ended June 30, 2025, the District implemented GASB issued Statement No. 102, Certain Risk Disclosures, effective for fiscal years beginning after June 15, 2024. The standard provides users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. GASB 102 requirements apply only to note disclosure and do not have any effect on beginning net position. The District implemented GASB 102 and evaluated their concentrations and constraints, but did not have any events that required disclosure.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

(2) Cash, Cash Equivalents, and Investments

Cash and Investments

The District pools cash from multiple sources and funds so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Cash, cash equivalents, and investments as of June 30, 2025, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 254,066,647
Restricted cash and cash equivalents	516,910,348
Restricted cash and cash equivalents – Pension Prefunding Trust	<u>22,544,304</u>
Total cash, cash equivalents and investment	<u><u>\$ 793,521,299</u></u>

Investment in Pension Prefunding Trust

In fiscal year 2022, the District's Board of Directors approved funding into the California Employers' Pension Prefunding Trust ("CEPPT"), an IRC Section 115 pension trust, to mitigate future budget impacts of rising pension contributions to CalPERS. The Section 115 pension trust assets are classified as restricted assets since their use is limited in scope to funding the District's CalPERS pension plan expenditures. Trust account holders can select from two strategy options for investments. The District has invested in the asset allocation for the Strategy 2 portfolio. Both portfolios seek to provide capital appreciation and income, but the Strategy 2 portfolio has a lower allocation to equities and a higher allocation to bonds and is considered the more conservative strategy.

Cash in County Treasury

The District is a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by the 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 quarterly. 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 Basic Financial Statements

Year Ended June 30, 2025

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. As of June 30, 2025, the District recorded a total of \$13.3 million of unrealized gain to reflect investments at its fair value.

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.

Except for investments by trustees of Certificates of Participation (COPs) proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from the website at <http://ttax.co.la.ca.us/>. The table below identifies some of the investment types permitted in the investment policy:

<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	20%	10%
Corporate Bonds, Medium-Term Notes & Covered Bonds	5 Years	30%	5%
Local Agency Investment Fund (LAIF)	N/A	Up to the state limit	Up to the state limit

Investments Authorized by Debt Agreements

The District's cash, cash equivalents, and investments with fiscal agent in the General Fund in the amount of \$3,197,489 represent funds which are restricted for specific purposes under the terms of the debt agreement at June 30, 2025.

Investments of debt proceeds held by the trustee are governed by provisions of the trust agreement rather than the general provisions of the California Government Code or the District's investment policy.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

Derivative Investments

The District did not directly enter into any derivative investments, and the County Pool was not holding derivative investments at June 30, 2025.

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 A-1/P-1/F-1 or better by two of the three nationally recognized rating services (Standard & Poor's, Moody's Investors Service, or Fitch Ratings). Corporate securities are required to have a rating of A or better at the time of purchase, and the amount invested in corporate securities in the A rating category shouldn't exceed 90% of the 30% permitted corporate allocation. U.S. government securities are required to have a rating of AA, long-term, or A-1, short-term, or better by two of the three rating services. Asset-backed securities are required to have a rating of AAA or higher by two of the three rating services.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The District's cash, cash equivalents, and investments were categorized as follows at June 30, 2025:

	<u>Ratings:</u>		<u>Maturities</u>	<u>Fair Value</u>
	<u>Moody's</u>	<u>S&P</u>		
AIG Fixed Annuity	Not Rated	Not Rated	Current	\$ 3,855,598
Dreyfus Treasury Securities	Aaa-mf	AAAm	Current	3,197,489
Investments in San Mateo Pooled Fund Investment Program	Aaa to A3	AAA to BBB+	2.29 Years	763,923,908
Total cash, cash equivalents, and investments				<u>\$ 770,976,995</u>

Restricted Cash, Cash Equivalents, and Investments

The District's restricted cash, cash equivalents, and investments are \$539,454,652 at June 30, 2025.

Included in this restricted balance is \$509,857,261 for air quality grants and projects, \$3,197,489 for debt service, and \$3,855,598 restricted for post-employment benefits.

Additionally, the District maintains restricted cash, cash equivalents, and investments in the Pension Prefunding Trust (CEPPT) of \$22,544,304 at June 30, 2025. This balance is restricted as funds deposited in the Pension Prefunding Trust are irrevocable and may only be used for the specific purpose for which the trust was established.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
Year Ended June 30, 2025

Fair Value Measurement

GASB 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach, or an income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. The investment in San Mateo Pooled Fund Investment Pool is subject to fair value measurement; however, it is not subject to the fair value hierarchy. The Dreyfus Treasury Securities are classified as Level 2 because they are observable but do not have quoted prices in an active market. The AIG Fixed Annuity is classified as Level 3 of the fair value hierarchy because it is a contract with AIG related to the restricted portion of OPEB funding and is not available for sale or transfers on any securities exchange.

(3) Receivables

At June 30, 2025, the District had the following accounts receivable:

General Fund:

Permit and other fees	\$	11,552,533	
County apportionments		59,454	
Interest		2,006,761	
Other		5,753	
Total General Fund			\$ 13,624,321

Special Revenue Fund

TFCA DMV fees	\$	4,864,222	
MSIF DMV fees		2,128,423	
Interest		5,204,023	
Total Special Revenue Fund			\$ 12,196,668

Total Receivables

\$ 25,820,989

(4) Interfund Transactions

Current interfund balances (due to/from other funds) arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures that 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, 2025, the General Fund was owed \$9,734,198 by the Special Revenue Fund.

With Board approval, resources are transferred from one fund to another. The purpose of the majority of transfers is to move approved administrative revenue charged to restricted programs in the Special Revenue Fund to the General Fund. Interfund transfers for the year ended June 30, 2025, were as follows:

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount Transferred</u>
General Fund	Special Revenue Fund	\$ 2,068,404

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

(5) Capital Assets

The District's capital assets were comprised of the following at June 30, 2025:

	Balance at 7/1/2024	Additions	Transfers, Adjustments, Deletions	Balance at 6/30/2025
Nondepreciable Assets:				
Land	\$ 3,974,267	\$ -	\$ -	\$ 3,974,267
Construction in progress	86,581	(86,581)	-	-
Total nondepreciable assets	<u>4,060,848</u>	<u>(86,581)</u>	<u>-</u>	<u>3,974,267</u>
Depreciable assets:				
Building	36,950,205	-	-	36,950,205
Building & grounds	7,718,029	-	-	7,718,029
Leasehold improvements	2,933,740	-	-	2,933,740
Office equipment	445,678	-	(119,041)	326,637
Computer & network equipment	10,687,237	1,565,554	-	12,252,791
Enterprise application	44,043,366	4,056,044	-	48,099,410
Motorized equipment (vehicles)	429,694	-	-	429,694
Lab & monitoring equipment	13,456,038	1,343,647	24,909	14,824,594
Communication equipment	3,179,813	50,109	48,266	3,278,188
Furniture	231,177	-	-	231,177
General equipment	202,914	-	-	202,914
Lease assets	5,159,547	175,222	-	5,334,769
Total depreciable assets	<u>125,437,438</u>	<u>7,190,576</u>	<u>(45,866)</u>	<u>132,582,148</u>
Building	12,775,578	1,847,510	-	14,623,088
Building & grounds	2,194,527	426,383	-	2,620,910
Leasehold improvements	2,782,467	5,083	-	2,787,550
Office equipment	420,074	5,294	(117,409)	307,959
Computer & network equipment	10,072,330	264,472	-	10,336,802
Enterprise application	16,390,621	2,936,224	-	19,326,845
Motorized equipment (vehicles)	338,493	15,550	-	354,043
Lab & monitoring equipment	11,659,047	518,600	(13,040)	12,164,607
Communication equipment	3,003,166	33,328	-	3,036,494
Furniture	163,146	13,949	-	177,095
General equipment	196,992	-	-	196,992
Lease assets	2,587,277	659,925	-	3,247,202
Total accumulated depreciation	<u>62,583,718</u>	<u>6,726,318</u>	<u>(130,449)</u>	<u>69,179,587</u>
Total depreciable assets, net	<u>62,853,720</u>	<u>464,258</u>	<u>84,583</u>	<u>63,402,561</u>
Total capital assets, net	<u>\$ 66,914,568</u>	<u>\$ 377,677</u>	<u>\$ 84,583</u>	<u>\$ 67,376,828</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
Year Ended June 30, 2025

Depreciation expense by function for capital assets for the year ended June 30, 2025, is as follows:

Primary Government:

Administrative services	\$ 958,932
Assessment, inventory & model	120,958
Community engagement	283,981
Communications office	61,141
Compliance & enforcement	612,883
Diversity equity & inclusion	28,310
Engineering	435,440
Executive	242,735
Finance	216,564
Human resources	68,556
Information services operations	210,292
Legal services	151,790
Legislative	17,611
Meteorology & measurement	1,368,076
Enterprise technology solutions	1,728,647
Planning	113,598
Rule	82,243
Strategic incentives division	8,418
Technology implementation office	16,145
Total depreciation expense	\$ 6,726,318

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

(6) Unearned / Unavailable Revenue

The governmental fund financial statements report unavailable revenues as a deferred inflow of resources in connection with receivables for revenues that are not available when they are not collectible within the current period or soon enough thereafter to pay for liabilities of the current period. The District reports a liability for unearned revenue in connection with resources that have been received, but not yet earned. As of June 30, 2025, the various components of unavailable revenue and unearned revenue reported were as follows:

	Unearned Revenue	Unavailable Revenue	Total
General Fund:			
Permits and licenses	\$ -	\$ 5,519,064	\$ 5,519,064
Community Air Protection Program	15,961,754	-	15,961,754
Total General Fund	15,961,754	5,519,064	21,480,818
Special Revenue Fund:			
GMB - Administration	1,074,289	-	1,074,289
GMB - On-Road Projects	13,605,334	-	13,605,334
Shore Power Projects	6,308,987	-	6,308,987
TRUs	6,656	-	6,656
Locomotive	8,357	-	8,357
Carl Moyer Program	145,025,400	-	145,025,400
Carl Moyer Program Administration	4,312,412	-	4,312,412
Low Carbon Project Funding	2,580,266	-	2,580,266
Low Carbon Program Administration	1,144,021	-	1,144,021
Clean for All Cars Administration	2,927,613	-	2,927,613
Clean for All Cars Funding	6,521,749	-	6,521,749
Vehicle Settlement	80,521,456	-	80,521,456
Special Projects	1,561,809	-	1,561,809
Total Special Revenue Fund	265,598,349	-	265,598,349
Total Unearned and Unavailable Revenue	\$ 281,560,103	\$ 5,519,064	\$ 287,079,167

(7) Deferred Outflows and Inflows of Resources

District's deferred outflows and inflows of resources as of June 30, 2025 are comprised of the following:

	Deferred Outflows	Deferred Inflows
Changes of assumptions - Pension	\$ 3,837,095	\$ -
Changes of assumptions - OPEB	1,298,225	3,930,119
Differences between expected and actual experience - Pension	7,241,779	-
Differences between expected and actual experience - OPEB	4,623,547	3,893,337
Net differences between projected and actual earnings on plan investments - Pension	4,412,526	-
Net differences between projected and actual earnings on plan investments - OPEB	908,710	-
Pension contributions subsequent to measurement date	15,633,746	-
OPEB contributions subsequent to measurement date	4,505,885	-
Total	\$ 42,461,513	\$ 7,823,456

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

(8) Long-Term Liabilities

(a) Certificate of Participation

On November 7, 2013, the District issued \$30,000,000 through a private placement of taxable Certificates of Participation (COPs) with Bay Area Headquarters Authority (BAHA) to finance its ownership interest of approximately 75,000 square feet of office space at 375 Beale Street. The COPs were held by the Bank of New York Mellon Trust Company, N.A., as Trustee, in an escrow account until the acquisition of the premises by the District which occurred in May 2017. The escrow account paid interest due during the escrow period, at an annual rate of 0.247%, using proceeds of the COPs. Upon the acquisition date, the escrow period ended, and the District began making base rental payments of \$100,000 per month beginning July 1, 2017.

The District is subject to mandatory sinking fund account payments as follows:

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

The District and BAHA had entered into a financing lease/sublease arrangement whereby at the date of acquisition the District leased its office space to BAHA and BAHA subleased office space back to the District to secure payment on the COPs. Under the terms of the agreement, total monthly payments have been predetermined and the amount of such payments that relate to interest will be calculated based on the Adjustable Rate Mode accrued at the Adjusted Interest Rate as provided in the lease/sublease agreement with BAHA. All payments made into the sinking fund are restricted for debt service.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

Total payments of principal and interest are structured as follows:

<u>Fiscal Year</u>	<u>Total Annual Payments</u>	
2026	\$	1,200,000
2027		1,200,000
2028		1,370,000
2029		1,370,000
2030		1,370,000
2031-2035		6,850,000
2036-2040		6,850,000
2041-2045		6,850,000
	\$	<u>27,060,000</u>

Upon payment of all rental payments under the term of the sublease agreement, the title of the office space will transfer to the District. Future annual payments on COPs are as follows:

<u>Year Ending June 30</u>	<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>
2026	\$ 500,000	\$ 489,840
2027	500,000	474,240
2028	600,000	455,520
2029	600,000	436,800
2030	600,000	418,080
2031-2035	3,500,000	1,775,280
2036-2040	4,100,000	1,166,880
2041-2045	4,800,000	464,880
2046	1,000,000	—
	<u>\$ 16,200,000</u>	<u>\$ 5,681,520</u>

COPs bear a variable interest rate structure with preset interest rate caps. The interest rate is based on an agreed-upon spread of 120 basis points or 1.2% plus a commonly used interest rate index published by the Securities Industry and Financial Markets Association (SIFMA). The SIFMA index rate used to calculate the interest rate is determined by the Index Agent on (1) each Index Rate Determination Date determined by the Index Agent, plus (2) the applicable spread of 1.92%; the sum of which is subject to the preset interest rate cap as follows:

Preset Interest Rate Caps structure:

Year 1-5	3.20%
Year 6-10	4.20%
Year 11-30	5.20%

The District determined that the SIFMA rate as of the end of the fiscal year ending June 30, 2025 is lower than the preset interest rate cap of 4.20%, noted above. As such, the District utilized the SIFMA rate for Fiscal Year 2025 to calculate the interest based on the predetermined principal payment schedule above.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

(b) Leases

The District is a lessee for noncancellable leases of buildings and vehicles. The District recognizes lease liability and intangible right-to-use lease assets in the government-wide financial statements.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain indirect costs. Subsequently, the leased asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines: (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option prices that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

The opening balance of the lease liability was recorded in the amount of \$2.8 million. During the year, the District entered into new agreements amounting to \$175,222. Fiscal Year 2025 amortization was \$619,501. As of June 30, 2025, the total value of the lease liability was \$2.3 million.

As of June 30, 2025, the total value of the right-to-use asset was recorded at a cost of \$5.3 million with accumulated amortization of \$3.2 million.

The future lease payments under lease agreements are as follows:

Year Ending June 30	Lease Obligations	
	Principal	Interest
2026	453,153	40,017
2027	427,628	29,619
2028	291,446	20,106
2029	150,852	15,292
2030	152,194	12,499
2031-2035	567,651	38,203
2036-3040	276,571	3,522
	<u>\$ 2,319,495</u>	<u>\$ 159,258</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
Year Ended June 30, 2025

(c) Summary of Long-Term Liabilities

A schedule of changes in general long-term debt for the year ended June 30, 2025 is shown below:

	<u>Balance July 1, 2024</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2025</u>	<u>Due Within One Year</u>
Governmental Activities					
Certificates of participation (COPs)	\$ 16,700,000	\$ -	\$ (500,000)	\$ 16,200,000	\$ 500,000
Compensated absences	8,533,851	6,993,349	(6,520,719)	9,006,481	6,730,286
Lease obligations	2,763,774	175,222	(619,501)	2,319,495	453,153
Total	<u>\$ 27,997,625</u>	<u>\$ 7,168,571</u>	<u>\$ (7,640,220)</u>	<u>\$ 27,525,976</u>	<u>\$ 7,683,439</u>

The certificates of participation and long-term portion of compensated absences are liquidated by the General Fund. Lease obligations are liquidated by the General Fund and Special Revenue Fund.

(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 in footnote 1(c).

Secured property tax is due in two installments, on November 1 and March 1 and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31. The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue and receivables in the fiscal year of the levy, provided that they are collected within the fiscal year or within sixty days after year-end to be consistent with the District's collection period used in the measurement of the collection period for when revenues are considered available.

County apportionment revenue recognized as of June 30, 2025, is as follows:

<u>County</u>	<u>Amount</u>
Alameda	\$ 9,102,184
Contra Costa	5,381,475
Marin	2,138,081
Napa	1,546,848
Santa Clara	14,056,462
San Francisco	7,379,805
San Mateo	6,917,501
Solano	1,163,742
Sonoma	2,202,346
Total county apportionment revenue	<u>\$ 49,888,444</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

(10) Pension Plan

Plan Description

All District employees are eligible to participate in the Bay Area Air Quality Management District Miscellaneous Plan (the Plan), an agent multiple-employer defined-benefit pension plan administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. CalPERS issues a publicly available report that includes a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found online at www.calpers.ca.gov.

Benefits Provided

Benefit provisions under the Plan are established by State statute and District resolution. The benefits are based on members' years of service, age, final compensation, and benefit formula. The California Public Employees Pension Reform Act of 2013 (PEPRA) made significant changes to the benefit structure that primarily affect members first hired to perform CalPERS creditable activities on or after January 1, 2013. As a result of PEPRA, the Plan has two benefit structures: 1) CalPERS Miscellaneous Employee "2% at 55" for members first hired prior to January 1, 2013, to perform CalPERS creditable activities (Classic members), and 2) CalPERS Miscellaneous Employee "2% at 62" for members first hired on or after January 1, 2013, to perform CalPERS creditable activities (PEPRA members). The Plan provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries.

Classic members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits, while PEPRA members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, the Optional Settlement 2 Death Benefit, or the Special Death Benefit. The standard cost-of-living adjustment (COLA) is 2% and is applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2025, are summarized as follows:

	Classic	PEPRA
	Prior to	On or after
	January 1, 2013	January 1, 2013
Hiring date	2% @ 55	2% @ 62
Benefit formula	5 years service	5 years service
Benefit vesting schedule	monthly for life	monthly for life
Benefit payments	50	52
Retirement age: minimum	1.43% - 2.42%	1.00 % - 2.50%
Monthly benefit, as a % of eligible compensation	7.00%	6.75%
Required employee contribution rates	26.70%	26.70%
Required employer contribution rates		

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

Employees Covered

At June 30, 2025, the following employees were covered by the benefit terms for the Plan:

Inactive employees or beneficiaries currently receiving benefits	287
Inactive employees entitled to but not yet receiving benefits	13
Active employees	468
Total	<u>768</u>

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. For the year ended June 30, 2025, the contributions to the Plan amounted to \$15,633,746.

Net Pension Liability

The District’s net pension liability for the Plan of \$105,978,447 at June 30, 2025, is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2024, using an annual actuarial valuation as of June 30, 2023, rolled forward to June 30, 2024, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability of the Plan is shown below. The total pension liability in the June 30, 2023, actuarial valuations were determined using the following actuarial assumptions:

Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Discount rate	6.90%
Price inflation	2.30%
Salary increases	Varies by entry age and service
Mortality rate table ⁽¹⁾	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	The lesser of contract COLA or 2.30% until purchasing power protection allowance floor on purchasing power applies, 2.30% thereafter

⁽¹⁾ The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

All other actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study, including updates to salary increases, mortality, and retirement dates. The 2021 experience study report from November 2021 can be obtained at CalPERS' website under Forms and Publications.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

Asset Class ^(a)	Assumed Asset Allocation	Real Return ^{(a), (b)}
Global equity - cap-weighted	30.00 %	4.54 %
Global equity - non-cap-weighted	12.00	3.84
Private equity	13.00	7.28
Treasury	5.00	0.27
Mortgage-backed securities	5.00	0.50
Investment grade corporates	10.00	1.56
High yield	5.00	2.27
Emerging market debt	5.00	2.48
Private debt	5.00	3.57
Real assets	15.00	3.21
Leverage	(5.00)	(0.59)
	<u>100.00 %</u>	

^(a) An expected inflation of 2.30% used for this period.

^(b) Figures are based on the 2021 Asset Liability Management study.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
Year Ended June 30, 2025

Changes in the Net Pension Liability

The changes in the net pension liability for the Plan are as follows:

	Liability (a)	Net Position (b)	Liability (a-b)
Balance at June 30, 2024	\$ 412,235,457	\$ 302,955,948	\$ 109,279,509
Changes recognized for the measurement period:			
Service cost	8,845,508	-	8,845,508
Interest on the total pension liability	28,458,957	-	28,458,957
Changes of benefit terms	-	-	-
Differences between expected and actual experience	6,734,462	-	6,734,462
Contributions from the employer	-	14,118,661	(14,118,661)
Contributions from employees	-	4,263,014	(4,263,014)
Net investment income	-	29,204,830	(29,204,830)
Benefit payments, including refunds of employee contributions	(21,888,051)	(21,888,051)	-
Administrative expense	-	(246,516)	246,516
Net changes	<u>22,150,876</u>	<u>25,451,938</u>	<u>(3,301,062)</u>
Balance at June 30, 2025	<u>\$ 434,386,333</u>	<u>\$ 328,407,886</u>	<u>\$ 105,978,447</u>

Sensitivity of the District's Net Pension Liability to Changes in the Discount Rate

The following presents the District's net pension liability for the Plan as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (%) or 1-percentage-point higher (%) than the current rate:

	1.00% Decrease (5.90%)	Current Discount Rate (6.90%)	1.00% Increase (7.90%)
District's net pension liability	\$ 160,460,172	\$ 105,978,447	\$ 60,694,567

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. Copies of the CalPERS annual financial report may be obtained from CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA 94229-2703, or by calling (888) CalPERS (225-7377).

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2024, the District recognized pension expense of \$2,271,666 for the Plan. As of June 30, 2025, the District reported deferred outflows and deferred inflows of resources related to the Plan as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Changes of assumptions	\$ 3,837,095	\$ -
Differences between expected and actual experience	7,241,779	-
Net differences between projected and actual earnings on pension plan investments	4,412,526	-
District contributions subsequent to the measurement date	15,633,746	-
Total	<u>\$ 31,125,146</u>	<u>-</u>

The amounts above are net of outflows and inflows recognized in the 2023-24 measurement period expense.

The \$15,633,746 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in future pension expense as follows:

	Deferred Outflows Deferred Outflows of Resources
<u>Year ended June 30</u>	<u> </u>
2026	\$ 4,127,500
2027	11,388,390
2028	426,979
2029	(451,469)

Payable to the Pension Plan

The District's contribution for all members to the Plan for the fiscal year ended June 30, 2025, was in accordance with the required contribution rate calculated by the CalPERS actuary. Hence, no payable to the pension plan is recognized for the fiscal year ended June 30, 2025.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

(11) Postemployment Benefits – Health and Welfare for Retirees

Plan Description

The District contributes to an agent multiple-employer plan administered by CalPERS. The plan 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 for classic or age 52 for PEPR with at least 5 (five) years of service, or an approved disability retirement.

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 the trust and administered by the California Public Employees' Retirement System (CalPERS).

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. The District's Other Postemployment Benefits (OPEB) financial statements will be included in the CalPERS Comprehensive Annual Financial Report (CAFR). Copies of CalPERS' CAFR may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Additionally, the plan maintains a closed group of retirees receiving coverage through a separate life insurance policy with American International Group, Inc. (AIG). The District makes contributions to the AIG Retiree Life Reserve Fund on an annual basis as needed to ensure that Fund's balance is equal to the present value of expected claims for the retirees covered by the policy. The AIG Retiree Reserve Fund can only be applied toward the benefits provided under the program. As of June 30, 2025, the AIG Retiree Life Insurance Fund had a total asset balance of \$272,865, making up 0.3% of the total Plan Fiduciary Net Position of \$80,692,923. All activities of the AIG Retiree Life Reserve Fund are accounted for in the measurement of the District's net OPEB liability.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
Year Ended June 30, 2025

Employees Covered

As of June 30, 2023, actuarial valuation, the following current, and former employees were covered by the benefit terms under the District’s OPEB Plan:

Active employees	408
Inactive employees or beneficiaries currently receiving benefits	280
Inactive employees entitled to, but not yet receiving benefits	4
Total	692

Contributions

The District contributions to the Plan occur as benefits are paid to retirees (pay-as-you-go basis) and/or to the OPEB trust by means of discretionary funding payments as approved by the Board.

The District’s actuary also accounts for the implicit subsidy contribution, which exists when premiums charged for retiree coverage are lower than the expected retiree claims for that coverage. In the District’s program, the claims experience for active employees and retirees not covered by Medicare is co-mingled in setting premium rates for some members and gives rise to an implicit subsidy. The implicit subsidy is determined as the projected difference between (a) retiree medical and life insurance claim costs by age and (b) premiums charged for retiree coverage.

For fiscal year 2025, the District contributed a total of \$4,505,885 to the plan that includes \$879,635 identified as implicit contributions.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

Net OPEB Liability

The District's net OPEB liability of \$2,204,365 at June 30, 2025, is measured as the total OPEB liability, less the OPEB plan's fiduciary net position. The net OPEB liability is measured using an annual actuarial valuation as of June 30, 2023. The total OPEB liability in the June 30, 2023 actuarial valuation was determined using the below actuarial assumptions. The only assumption changes, measured as of June 30, 2024 (in between biennial actuarial valuations), were updates to the expected trust return and discount rate, reflecting new information provided by CalPERS for funds invested with CERBT, and updated below accordingly:

Valuation date	June 30, 2023
Measurement date	June 30, 2024
Actuarial cost method	Entry-age normal cost, level percent of pay
Actuarial assumptions	
Discount rate	6.35% as of June 30, 2024 and 6.15% as of June 30, 2023.
Inflation	2.50%
Salary increases	3.00% per year; since benefits do not depend on salary, this is used to allocate the cost of benefits between service years and to determine the amortization payment component of the Actuarially Determined Contributions.
Investment rate of return	6.35% as of June 30, 2024 and 6.15% as of June 30, 2023.
Mortality improvement	MacLeod Watts Scale 2022 applied generationally from 2017.
Healthcare trend	Medical plan premiums and estimated claims costs by age are assumed to increase once each year. The increases over the prior year's levels are assumed to be effective on the dates shown below:

Effective January 1	Premium Increase	Effective January 1	Premium Increase
2025	Actual	2024-2049	4.7%
2026	6.0%	2050-2059	4.6%
2027	5.5%	2060-2065	4.5%
2028	5.4%	2066-2067	4.4%
2029	5.3%	2068-2069	4.3%
2030	5.2%	2070	4.2%
2031	5.1%	2071-2072	4.1%
2032-2037	5.0%	2073-2074	4.0%
2038-2039	4.9%	2075	3.9%
2040-2043	4.8%	& Later	3.9%

The trend shown above was developed using the Getzen Model 2023 published by the Society of Actuaries using the following settings: CPI 2.5%; Real GDP Growth 1.4%; Excess Medical Growth 1.0%; Expected Health Share of GDP in 2032 20%; Resistance Point 21%; Year after which medical growth is limited to growth in GDP 2075.

Demographic actuarial assumptions used in this valuation are based on the 2021 experience study of the California Public Employees Retirement System using data from 1997 to 2019, except for a different basis used to project future mortality improvements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

Changes of Assumptions

The June 30, 2024, actuarial report is based on a roll forward of the June 30, 2023, valuation results. The only assumption changes were updates to the expected trust return and discount rate, reflecting new information provided by CalPERS for funds invested with CERBT. Accordingly, the discount rate increased from 6.15% to 6.35%.

Discount Rate

The discount rate used to measure the total OPEB liability is 6.35%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for currently active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

CalPERS last updated the projected future investment returns for CERBT Strategy 1 in June 2024. The returns were determined using a building-block method and best-estimate ranges of expected future real rates of return for each major asset class (expected returns, net of OPEB plan investment expense and inflation). The target allocation and best estimates of geometric real rates of return published by CalPERS for each major asset class are split for years 1-5 and years 6-20. We assume that the returns for years 6 through 20 would continue in later years.

Asset Classification	Assumed asset allocation
Global equity	49.00%
Fixed income	23.00
REITs	20.00
TIPS	5.00
Commodities	3.00
Total	100.00%
1-5 Year Projected Compound Return ¹	6.10%
6-20 Year Projected Compound Return ²	6.60%
Expected Volatility (Standard Deviation)	11.50%

To derive the expected future trust return specifically for the District, the CalPERS' future return expectations is adjusted to align with the 2.5% general inflation assumption used in this report. Then, applying the plan specific benefit payments (as determined from the June 30, 2023, valuation) to CalPERS' bifurcated return expectations, the actuaries determined the single equivalent long-term rate of return to be 6.55%. As the District is less optimistic about future expected returns, 6.35% was approved as the expected return on assets.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
Year Ended June 30, 2025

Changes in the OPEB Liability (Asset)

The changes in the net OPEB liability (asset) for the plan are as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a-b)
Beginning Balance at June 30, 2024	\$ 79,100,181	\$ 72,816,794	\$ 6,283,387
Changes recognized for the measurement period			
Service cost	2,601,574	-	2,601,574
Interest on the total OPEB liability	4,894,257	-	4,894,257
Differences between expected and actual experience	2,468,209	-	2,468,209
Change of assumptions	(1,926,255)	-	(1,926,255)
Benefit payments	(4,240,678)	(4,240,678)	-
Contributions - employer	-	4,240,678	(4,240,678)
Net investment income	-	7,899,756	(7,899,756)
Other expenses - administrative expense	-	(23,627)	23,627
Net changes	<u>3,797,107</u>	<u>7,876,129</u>	<u>(4,079,022)</u>
Balance at June 30, 2025	<u>\$ 82,897,288</u>	<u>\$ 80,692,923</u>	<u>\$ 2,204,365</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following table illustrates the impact of interest rate sensitivity on the Net OPEB Liability of the District if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for fiscal year ended June 30, 2025:

	1.00% Decrease (5.35%)	Current Discount Rate (6.35%)	1.00% Increase (7.35%)
Net OPEB liability (asset)	\$ 12,593,477	\$ 2,204,365	\$ (6,435,497)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate, for measurement period ended June 30, 2025:

	1.00% Decrease	Current Trend ⁽¹⁾	1.00% Increase
Net OPEB liability (asset)	\$ (5,263,154)	\$ 2,204,365	\$ 9,919,154

⁽¹⁾ Refer above to actuarial assumptions for health trend rates.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2025, the District recognized OPEB revenue of \$3,084,990. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 1,298,225	\$ 3,930,119
Difference between expected and actual earnings on OPEB plan investments	908,710	—
Difference between expected and actual experience	4,623,547	3,893,337
District contributions subsequent to the measurement date	4,505,885	—
Total	<u>\$ 11,336,367</u>	<u>\$ 7,823,456</u>

The \$4,505,885 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction in net OPEB liability in the year ending June 30, 2026.

Amounts recognized in the deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

<u>Year ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2026	\$ (1,096,218)
2027	1,588,795
2028	(1,122,897)
2029	(560,572)
Thereafter	197,918

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
Year Ended June 30, 2025

(12) Fund Balances

The following is a summary of non-spendable, restricted, committed and unassigned fund balances at June 30, 2025:

	General Fund	Special Revenue Fund
Nonspendable:		
Prepaid items	\$ 738,953	\$ -
Total Nonspendable Balances	738,953	-
Restricted for:		
Air quality grants and projects	627,805	238,241,732
Postemployment benefits	3,855,598	-
Debt service	3,197,489	-
Pension prefunding trust	22,544,304	-
Total Restricted Balances	30,225,196	238,241,732
Committed to:		
Air quality grants and projects	13,378,757	-
Local benefit community fund	87,385,621	-
Regional benefit community fund	22,192,114	-
Reserve for economic contingency	36,191,000	-
AB617 staffing contingency	9,000,000	-
Community benefits	3,000,000	-
Incident monitoring program	1,000,000	-
Limited term contract employee staffing	1,580,034	-
Outside council litigation	3,655,000	-
Richmond improvement (HQE)	1,000,000	-
Schedule X	6,209,496	-
Technology implementation office	2,850,000	-
Wildfire mitigation	273,813	-
Woodsmoke (SID)	458,322	-
Woodsmoke (C&E)	184,984	-
Total Committed Balances	188,359,141	-
Unassigned	61,743,701	-
Total Fund Balances	\$ 281,066,991	\$ 238,241,732

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2025

Nonspendable fund balances represent amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balances represent amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balances represent amounts that can be used only for specific purposes determined by a formal action of the governing board through the adoption of a resolution. The governing board is the highest level of decision-making authority for the District. These committed amounts cannot be used for any other purpose unless the governing board removes or changes the specific use through formal action. Governing board's action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30. The amount which will be committed can be determined subsequently but prior to the release of the District's financial statements.

Unassigned fund balances represent all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers assigned amounts to be reduced first before the unassigned amounts.

(13) 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 \$100 million, respectively.

The District has had no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the District's commercial insurance coverage. As of June 30, 2025, the District had no material claims outstanding for general liability or workers' compensation cases.

(14) Commitments and Contingencies

The District is subject to litigation arising in the normal course of business. In the opinion of the District's Attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of the District.

The District receives Federal and State grant funds. The amounts, if any, of the District's grant expenditures which may be disallowed upon audit by the granting agencies cannot be determined at this time, although the District expects any such amounts to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios*
For the Year Ended June 30, 2025
(unaudited)

	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>	<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>
Total OPEB Liability								
Service cost	\$ 1,531,801	\$ 1,581,585	\$ 1,801,428	\$ 1,859,816	\$ 1,915,610	\$ 2,189,150	\$ 2,254,825	\$ 2,601,574
Interest on the total OPEB liability	4,722,673	4,980,026	5,164,087	4,698,222	4,895,975	4,455,401	4,639,111	4,894,257
Changes of assumptions	-	3,506,193	175,927	-	3,275,584	-	(3,197,828)	(1,926,255)
Differences between expected and actual experience	-	-	(7,536,242)	-	(9,030,137)	-	3,519,298	2,468,209
Benefit payments	<u>(2,600,577)</u>	<u>(2,908,537)</u>	<u>(3,161,874)</u>	<u>(3,489,527)</u>	<u>(3,653,437)</u>	<u>(3,574,371)</u>	<u>(3,822,799)</u>	<u>(4,240,678)</u>
Net change in total OPEB liability	3,653,897	7,159,267	(3,556,674)	3,068,511	(2,596,405)	3,070,180	3,392,607	3,797,107
Total OPEB liability – beginning	<u>64,908,798</u>	<u>68,562,695</u>	<u>75,721,962</u>	<u>72,165,288</u>	<u>75,233,799</u>	<u>72,637,394</u>	<u>75,707,574</u>	<u>79,100,181</u>
Total OPEB liability – ending (a)	<u>\$ 68,562,695</u>	<u>\$ 75,721,962</u>	<u>\$ 72,165,288</u>	<u>\$ 75,233,799</u>	<u>\$ 72,637,394</u>	<u>\$ 75,707,574</u>	<u>\$ 79,100,181</u>	<u>\$ 82,897,288</u>
Plan Fiduciary Net Position								
Contributions – employer	\$ 6,600,577	\$ 6,817,699	\$ 7,161,874	\$ 3,401,469	\$ 7,653,437	\$ 7,574,371	\$ 3,822,799	\$ 4,240,678
Net investment income	3,304,360	3,139,604	2,802,806	1,897,992	15,526,284	(10,600,660)	4,371,672	7,899,756
Benefit payments	(2,600,577)	(2,908,537)	(3,161,874)	(3,489,527)	(3,653,437)	(3,574,371)	(3,822,799)	(4,240,678)
Administrative expense	<u>(17,180)</u>	<u>(73,126)</u>	<u>(9,966)</u>	<u>(26,028)</u>	<u>(21,632)</u>	<u>(19,887)</u>	<u>(19,792)</u>	<u>(23,627)</u>
Net change in plan fiduciary net position	7,287,180	6,975,640	6,792,840	1,783,906	19,504,652	(6,620,547)	4,351,880	7,876,129
Plan fiduciary net position – beginning	<u>32,741,243</u>	<u>40,028,423</u>	<u>47,004,063</u>	<u>53,796,903</u>	<u>55,580,809</u>	<u>75,085,461</u>	<u>68,464,914</u>	<u>72,816,794</u>
Plan fiduciary net position – ending (b)	<u>40,028,423</u>	<u>47,004,063</u>	<u>53,796,903</u>	<u>55,580,809</u>	<u>75,085,461</u>	<u>68,464,914</u>	<u>72,816,794</u>	<u>80,692,923</u>
Net OPEB liability – ending (a) - (b)	<u>\$ 28,534,272</u>	<u>\$ 28,717,899</u>	<u>\$ 18,368,385</u>	<u>\$ 19,652,990</u>	<u>\$ (2,448,067)</u>	<u>\$ 7,242,660</u>	<u>\$ 6,283,387</u>	<u>\$ 2,204,365</u>
Plan fiduciary net position as a percentage of the total OPEB liability	58.4%	62.1%	74.5%	73.9%	103.4%	90.4%	92.1%	97.3%
Covered – employee payroll	\$ 35,433,438	\$ 37,405,253	\$ 40,462,747	\$ 44,766,317	\$ 48,652,158	\$ 51,700,259	\$ 53,430,405	\$ 62,501,063
Net OPEB liability as percentage of covered – employee payroll	80.53%	76.78%	45.40%	43.90%	-5.03%	14.01%	11.76%	3.53%

* Fiscal year 2017-18 was the first year of implementation, therefore only eight years are shown.

See accompanying independent auditor's report.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
Schedule of Contributions - OPEB*
For the Year Ended June 30, 2025
(unaudited)

	2017-2018		2018-2019		2019-2020		2020-2021		2021-2022		2022-2023		2023-2024		2024-2025
Actuarially determined contribution	\$ 6,081,000	\$	\$ 5,655,362	\$	\$ 4,721,343	\$	\$ 4,380,464	\$	\$ 2,080,418	\$	\$ 2,023,598	\$	\$ 3,225,403	\$	\$ 3,232,711
Contributions in relation to the actuarially determined contributions	6,817,699		7,161,874		3,401,469		7,653,437		7,574,371		3,822,799		4,240,678		4,505,885
Contribution deficiency (excess)	\$ (736,699)	\$	\$ (1,506,512)	\$	\$ 1,319,874	\$	\$ (3,272,973)	\$	\$ (5,493,953)	\$	\$ (1,799,201)	\$	\$ (1,015,275)	\$	\$ (1,273,174)
Covered - employee payroll	\$ 37,405,252	\$	\$ 40,734,161	\$	\$ 44,766,317	\$	\$ 48,652,158	\$	\$ 51,700,259	\$	\$ 53,430,405	\$	\$ 62,501,063	\$	\$ 68,260,476
Contributions as a percentage of covered employee payroll	18.23%		17.58%		7.60%		15.73%		14.65%		7.15%		6.78%		6.60%
Notes to Schedule:															
The actuarial methods and assumptions used to set the actuarially determined contributions are as follows:															
Valuation date	6/30/2015		7/1/2017		6/30/2019		6/30/2019		6/30/2021		6/30/2021		6/30/2023		6/30/2023
Actuarial cost method	Entry age normal		Entry age normal		Entry age normal		Entry age normal		Entry age normal		Entry age normal		Entry age normal		Entry age normal
Amortization method	Level percentage of pay		Level percentage of pay		Level percentage of pay		Level percentage of pay		Level percentage of pay		Level percentage of pay		Level percentage of pay		Level percentage of pay
Amortization period	10 years		9 years		8 years		7 years		30 years		30 years		30 years		30 years
Asset valuation method	CERBT - 5-year smoothed market AIG Fund - contract value		Market value of assets		Market value of assets		Market value of assets		Market value of assets		Market value of assets		Market value of assets		Market value of assets
Inflation	3.00%		2.75%		2.50%		2.50%		2.50%		2.50%		2.50%		2.50%
Healthcare cost trend rates	<p>Non-Med - 2015: Actual, 2016: Actual, 2017: 7.0%; 2018: 6.5%; 2019: 6.0%; 2020: 5.5%; 2021+: 5.0%</p> <p>Medicare - 2015: Actual; 2016: Actual; 2017: 7.2%; 2018: 6.7%; 2019: 6.1%; 2020: 5.6%; 2021+: 5.0%</p>		<p>Dental and vision premiums are assumed to increase by 3% per year. The PEMHCA Minimum Employer Contribution is assumed to increase at 4.5% per year. Life insurance premiums are assumed to remain fixed at current levels in all future years.</p>		<p>Medical Premium Increase - Effective January 1: 2021: 5.40%; 2022: 5.30%; 2023: 26: 5.20%; 2027-46: 5.30%; 2047: 5.20%; 2048-49: 5.10%; 2050-53: 5.00%; 2054-59: 4.90%; 2060-66: 4.80%; 2067: 4.70%; 2068: 4.60%; 2069: 4.50%; 2070-71: 4.40%; 2072: 4.30%; 2073-74: 4.20%; 2075: 4.10%; 2076 & later: 4.00%</p> <p>The PEMHCA Minimum Employer Contribution is assumed to increase at 4.0% per year. Life insurance premiums are assumed to remain fixed at current levels in all future years.</p>		<p>Medical Premium Increase - Effective January 1: 2021: 5.40%; 2022: 5.30%; 2023: 26: 5.20%; 2027-46: 5.30%; 2047: 5.20%; 2048-49: 5.10%; 2050-53: 5.00%; 2054-59: 4.90%; 2060-66: 4.80%; 2067: 4.70%; 2068: 4.60%; 2069: 4.50%; 2070-71: 4.40%; 2072: 4.30%; 2073-74: 4.20%; 2075: 4.10%; 2076 & later: 4.00%</p> <p>The PEMHCA Minimum Employer Contribution is assumed to increase at 4.0% per year. Life insurance premiums are assumed to remain fixed at current levels in all future years.</p>		<p>Medical Premium Increase - Effective January 1: 2023: 5.60%; 2024: 5.50%; 2025: 26: 5.40%; 2027-29: 5.30%; 2030-51: 5.20%; 2052: 5.10%; 2053-55: 5.00%; 2056-60: 4.90%; 2061-66: 4.80%; 2067: 4.70%; 2068: 4.60%; 2069: 4.50%; 2070-71: 4.40%; 2072: 4.30%; 2073-74: 4.20%; 2075: 4.10%; 2076 & later: 4.00%</p> <p>The PEMHCA Minimum Employer Contribution is assumed to increase at 4.0% per year. Life insurance premiums are assumed to remain fixed at current levels in all future years.</p>		<p>Medical Premium Increase - Effective January 1: 2023: 5.60%; 2024: 5.50%; 2025: 26: 5.40%; 2027-29: 5.30%; 2030-51: 5.30%; 2030: 5.20%; 2031: 5.10%; 2032-37: 5.00%; 2038-39: 4.90%; 2040-2043: 4.80%; 2044-49: 4.70%; 2050-59: 4.60%; 2060-65: 4.50%; 2066-67: 4.40%; 2068-69: 4.30%; 2070: 4.20%; 2071-72: 4.10%; 2073-74: 4.00%; 2075 & later: 3.90%</p> <p>The PEMHCA Minimum Employer Contribution is assumed to increase at 4.0% per year. Life insurance premiums are assumed to remain fixed at current levels in all future years.</p>		<p>Medical Premium Increase - Effective January 1: 2024: Actual, 2025: 6.50%; 2026: 6.00%; 2027: 5.50%; 2028: 5.40%; 2029: 5.30%; 2030: 5.20%; 2031: 5.10%; 2032-37: 5.00%; 2038-39: 4.90%; 2040-2043: 4.80%; 2044-49: 4.70%; 2050-59: 4.60%; 2060-65: 4.50%; 2066-67: 4.40%; 2068-69: 4.30%; 2070: 4.20%; 2071-72: 4.10%; 2073-74: 4.00%; 2075 & later: 3.90%</p> <p>The PEMHCA Minimum Employer Contribution is assumed to increase at 4.0% per year. Life insurance premiums are assumed to remain fixed at current levels in all future years.</p>		
Salary increases	3.25%		3.25% per year; used to determine amortization payments if developed on a level percent of pay basis		3.00% per year; since benefits do not depend on pay, this is used only to allocate the cost of benefits between service years and to develop the amortization payment portion of the actuarially determined contributions		3.00% per year; since benefits do not depend on pay, this is used only to allocate the cost of benefits between service years and to develop the amortization payment portion of the actuarially determined contributions		3.00% per year; since benefits do not depend on pay, this is used only to allocate the cost of benefits between service years.		3.00% per year; since benefits do not depend on pay, this is used only to allocate the cost of benefits between service years.		3.00% per year; since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years.		3.00% per year; since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years.
Investment rate of return	7.25%		7.25%		6.50%		6.50%		6.10%		6.10%		6.15%		6.35%
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007		The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011		The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015		The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015		The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015		The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015		The probabilities of retirement are based on the 2021 CalPERS Experience Study for the period from 2000 to 2019.		The probabilities of retirement are based on the 2021 CalPERS Experience Study for the period from 2000 to 2019.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Fully generational with Scale MP-2014 modified to converge to ultimate improvement rates in 2022 for pre and post-retirement mortality		The representative mortality rates were those published by CalPERS in their 2014 study, adjusted to back out 20 years of Scale BB to central year 2008.		The representative mortality rates were those published by CalPERS in their 2017 study, adjusted to back out 15 years of Scale MP 2016 to central year 2015.		The representative mortality rates were those published by CalPERS in their 2017 study, adjusted to back out 15 years of Scale MP 2016 to central year 2015.		The representative mortality rates were those published by CalPERS in their 2017 study, adjusted to back out 15 years of Scale MP 2016 to central year 2015.		The representative mortality rates were those published by CalPERS in their 2017 study, adjusted to back out 15 years of Scale MP 2016 to central year 2015.		The representative mortality rates were those published by CalPERS in their 2021 study, adjusted to back out 15 years of Scale MP 2016 to central year 2015.		The representative mortality rates were those published by CalPERS in their 2021 study, adjusted to back out 15 years of Scale MP 2016 to central year 2015.

* Fiscal year 2017-18 was the first year of implementation, therefore only eight years are shown.
See accompanying independent auditor's report.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios
California Public Employees' Retirement System (CalPERS) – Miscellaneous Plan
For the Year Ended June 30, 2025
(unaudited)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Total Pension Liability										
Service cost	\$ 4,405,494	\$ 4,402,254	\$ 5,251,175	\$ 5,588,151	\$ 5,823,771	\$ 6,236,440	\$ 6,774,300	\$ 7,805,008	\$ 8,395,155	\$ 8,845,508
Interest on total pension liability	19,019,896	19,929,495	20,568,801	21,332,712	22,580,042	23,680,235	24,829,261	25,737,558	26,960,879	28,458,957
Changes in benefit terms	—	—	—	—	—	—	—	—	285,870	—
Changes in assumptions	(4,479,434)	—	16,314,523	(1,997,101)	—	—	—	10,232,255	—	—
Differences between expected and actual experience	(1,508,680)	(584,236)	(2,082,303)	(643,002)	4,336,733	2,141,716	2,420,546	781,844	2,150,563	6,734,462
Benefit payments, including refunds of employee contributions	(10,371,769)	(11,526,958)	(12,131,353)	(13,197,195)	(14,663,313)	(16,065,803)	(17,005,864)	(17,768,805)	(19,320,750)	(21,888,051)
Net change in total pension liability	7,065,507	12,220,555	27,920,843	11,083,565	18,077,233	15,992,588	17,018,243	26,787,860	18,471,717	22,150,876
Total pension liability – beginning	257,597,346	264,662,853	276,883,408	304,804,251	315,887,816	333,965,049	349,957,637	366,975,880	393,763,740	412,235,457
Total pension liability – ending (a)	264,662,853	276,883,408	304,804,251	315,887,816	333,965,049	349,957,637	366,975,880	393,763,740	412,235,457	434,386,333
Plan Fiduciary Net Position										
Contributions – employer	4,268,315	5,253,802	5,682,917	6,359,880	7,628,075	9,296,564	10,640,587	11,730,043	13,048,181	14,118,661
Contributions – employee	2,372,392	2,502,885	2,429,913	2,514,609	2,815,780	2,972,457	3,336,742	3,537,042	3,866,765	4,263,014
Net investment income	4,871,767	1,102,999	22,856,288	19,071,946	15,727,365	12,434,790	58,550,025	(23,840,877)	18,010,413	29,204,830
Plan to plan resource movement	—	—	—	(556)	—	—	—	—	—	—
Benefit payments, including refunds of employee contributions	(10,371,769)	(11,526,958)	(12,131,353)	(13,197,195)	(14,663,313)	(16,065,803)	(17,005,864)	(17,768,805)	(19,320,750)	(21,888,051)
Other miscellaneous income (expense) (1)	—	—	—	(667,255)	556	—	—	—	—	—
Administrative expense	(236,125)	(127,831)	(305,553)	(351,369)	(170,709)	(353,219)	(258,564)	(195,666)	(211,460)	(246,516)
Net change in plan fiduciary net position	904,580	(2,795,103)	18,532,212	13,730,060	11,337,754	8,284,789	55,262,926	(26,538,263)	15,393,149	25,451,938
Plan fiduciary net position – beginning	208,843,844	209,748,424	206,953,321	225,485,533	239,215,593	250,553,347	258,838,136	314,101,062	287,562,799	302,955,948
Plan fiduciary net position – ending (b)	209,748,424	206,953,321	225,485,533	239,215,593	250,553,347	258,838,136	314,101,062	287,562,799	302,955,948	328,407,886
Net pension liability – ending (a) - (b)	\$ 54,914,429	\$ 69,930,087	\$ 79,318,718	\$ 76,672,223	\$ 83,411,702	\$ 91,119,501	\$ 52,874,818	\$ 106,200,941	\$ 109,279,509	\$ 105,978,447
Plan fiduciary net position as a percentage of the total pension liability	79.25%	74.74%	73.98%	75.73%	75.02%	73.96%	85.59%	73.03%	73.49%	75.60%
Covered – employee payroll	\$ 33,133,499	\$ 34,119,169	\$ 35,433,438	\$ 37,405,253	\$ 40,734,161	\$ 44,766,317	\$ 48,652,158	\$ 51,700,259	\$ 53,430,405	\$ 60,198,178
Net pension liability as percentage of covered – employee payroll	165.74%	204.96%	223.85%	204.98%	204.77%	203.54%	108.68%	205.42%	204.53%	176.05%

(1) During Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

Notes to Schedule:

Changes in benefit terms: The figures above generally include any liability impact that may have resulted from voluntary benefit changes that occurred on or before the measurement date. However, offers of two years additional service credit (a.k.a. golden handshakes) that occurred after the valuation date are not included in the figures above, unless the liability impact is deemed to be material by the plan actuary.

In 2022, SB 1168 increased the standard retiree lump sum death benefit from \$500 to \$2,000 for any death occurring on or after July 1, 2023. The impact, if any, is included in the changes of benefit terms.

Changes in Assumptions: There were no assumption changes in 2023. Effective with the June 30, 2021, valuation date (2022 measurement date, fiscal year 2023), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

None in 2019 - 2021. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

See accompanying independent auditor's report.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
Schedule of Contributions - Pension
California Public Employees' Retirement System (CalPERS) – Miscellaneous Plan
For the Year Ended June 30, 2025
(unaudited)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Actuarially determined contribution	\$ 5,365,344	\$ 5,685,584	\$ 6,407,096	\$ 7,675,962	\$ 9,374,554	\$ 10,695,192	\$ 11,786,249	\$ 23,105,489	\$ 13,904,435	\$ 15,622,746
Contributions in relation to the actuarially determined contributions	(5,365,344)	(5,685,584)	(6,407,096)	(7,675,962)	(9,374,554)	(10,695,192)	(11,786,249)	(23,105,489)	(13,904,435)	(15,622,746)
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered – employee payroll	\$ 34,119,169	\$ 35,433,438	\$ 37,405,253	\$ 40,734,161	\$ 44,766,317	\$ 48,652,158	\$ 51,700,259	\$ 53,430,405	\$ 60,198,178	
Contributions as a percentage of covered – employee payroll	15.73%	16.05%	17.13%	18.84%	20.94%	21.98%	22.80%	43.24%	23.10%	#DIV/0!

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions are as follows:

Valuation date	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
Asset valuation method	Market value of assets	Market value of assets	Market value of assets	Market value of assets	Market value of assets	Market value of assets	Market value of assets	Market value of assets	Market value of assets	Market value of assets
Inflation	2.75% compounded annually	2.75% compounded annually	2.75% compounded annually	2.75% compounded annually	2.625% compounded annually	2.50% compounded annually	2.50% compounded annually	2.50% compounded annually	2.30% compounded annually	2.30% compounded annually
Salary increases	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service
Payroll Growth	3.00%	3.00%	3.00%	3.00%	2.88%	2.75%	2.75%	2.75%	2.80%	2.80%
Investment rate of return	7.50% net of pension plan investment and administrative expenses; includes inflation.	7.50% net of pension plan investment and administrative expenses; includes inflation.	7.50% net of pension plan investment and administrative expenses; includes inflation.	7.375% net of pension plan investment and administrative expenses; includes inflation.	7.25% net of pension plan investment and administrative expenses.	7.00% net of pension plan investment and administrative expenses.	7.00% net of pension plan investment and administrative expenses.	7.00% net of pension plan investment and administrative expenses.	6.80% net of pension plan investment and administrative expenses.	6.80% net of pension plan investment and administrative expenses.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.	The probabilities of retirement are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions for the period from 2000 to 2019.	The probabilities of retirement are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions for the period from 2000 to 2019.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.	The probabilities of mortality are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions for the period from 2000 to 2019.	The probabilities of mortality are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions for the period from 2000 to 2019.
	Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.	Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.	Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.	Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.	Post-retirement mortality rates above include 15 years of projected on-going mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.	Post-retirement mortality rates above include 15 years of projected on-going mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.	Post-retirement mortality rates above include 15 years of projected on-going mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.	Post-retirement mortality rates above include 15 years of projected on-going mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.	Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.	Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

See accompanying independent auditor's report.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2025

	Budgeted Amounts		Actual (Budgetary Basis)	Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Permit fees	\$ 52,155,595	\$ 52,155,595	\$ 56,195,648	\$ 4,040,053
Criteria pollutant and toxics emissions	1,691,369	1,691,369	1,849,104	157,735
Title V permit fees	8,100,473	8,100,473	7,115,807	(984,666)
Asbestos fees	3,650,000	3,650,000	3,728,850	78,850
Penalties and variance fees	4,000,000	4,000,000	90,138,912	86,138,912
Hearing board fees	90,000	90,000	72,601	(17,399)
State subvention	1,750,000	1,750,000	1,701,561	(48,439)
AB 2588 income - toxic inventory fees	1,292,751	1,292,751	1,578,872	286,121
Miscellaneous	300,000	300,000	414,391	114,391
Federal grant -EPA	6,919,505	6,919,505	3,574,743	(3,344,762)
Federal grant - DHS	1,597,702	1,597,702	1,356,214	(241,488)
Other grants	11,985,751	11,985,751	8,742,455	(3,243,296)
Portable equipment registration program (PERP)/Inspection Fees	1,000,000	1,000,000	1,780,668	780,668
Interest/Investment	2,505,620	2,505,620	13,353,710	10,848,090
County apportionment	46,306,873	46,306,873	49,888,444	3,581,571
Total revenues	143,345,639	143,345,639	241,491,980	98,146,341
Expenditures:				
Administration:				
Salaries and benefits	111,404,771	111,404,771	97,105,539	(14,299,232)
Services and supplies	40,848,478	55,222,913	28,650,859	(26,572,054)
Program distribution	1,950,000	2,143,971	1,306,795	(837,176)
Total current expenditures	154,203,249	168,771,655	127,063,193	(41,708,462)
Capital outlay	7,370,147	12,065,257	7,190,576	(4,874,681)
Debt Service: Principal	1,119,501	1,119,501	1,119,501	-
Debt Service: Interest	696,785	696,785	696,785	-
Total expenditures	163,389,682	182,653,198	136,070,055	(46,583,143)
Excess of Revenues Over Expenditures	(20,044,043)	(39,307,559)	105,421,925	144,729,484
Other Financing Sources				
Transfers in	189,084	189,084	2,068,404	1,879,320
Leases	175,222.00	175,222	175,222	-
Total other financing sources	364,306	364,306	2,243,626	1,879,320
Net Change in Fund Balance	\$ (19,679,737)	\$ (38,943,253)	107,665,551	\$ 146,608,804
Beginning Budgetary Fund Balance			173,401,440	
Ending Budgetary Fund Balance			\$ 281,066,991	

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
Year Ended June 30, 2025

	Budgeted Amounts		Actual (Budgetary Basis)	Final Budget Positive (Negative)
	Original	Final		
Revenues:				
TFCA/MSIF DMV fee	\$ 41,757,332	\$ 36,689,425	\$36,689,425	-
Carl Moyer Program	44,800,907	36,925,891	36,925,891	-
Other grants/funding	29,851,903	8,343,185	8,343,185	-
Federal grants	2,023,619	930,845	930,845	-
California Goods Movement	2,189,084	377,480	377,480	-
Vehicle settlement	16,035,329	2,491,209	2,491,209	-
Total revenues	136,658,174	85,758,035	85,758,035	-
Expenditures:				
Administration:				
Salaries and benefits	8,496,807	8,496,803	7,779,864	(716,939)
Services and supplies	15,038,990	4,730,586	4,730,586	-
Program distribution	111,707,522	71,179,181	71,179,181	-
Total expenditures	135,243,319	84,406,570	83,689,631	(716,939)
Excess of Revenues Over Expenditures	1,414,855	1,351,465	2,068,404	716,939
Other Financing Uses				
Transfers out	(1,414,855)	(1,351,465)	(2,068,404)	(716,939)
Total other financing uses				
Net Change in Fund Balance	\$ -	\$ -	-	\$ -
Beginning Budgetary Fund Balance				
Ending Budgetary Fund Balance			\$ -	

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Required Supplementary Information
Year Ended June 30, 2025

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 revenue, 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. Additionally, the unrealized loss as a result of recognizing the fair value of investments held in the San Mateo County Pool has also been excluded from the budgetary basis revenues.

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.

	Special Revenue Fund
Revenues - Budgetary Basis	\$ 85,758,035
Revenue recognition adjustments	20,649,520
Interest and investment gain (loss)	9,086,385
Revenues - GAAP Basis	\$ 115,493,940

OTHER INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Transportation Fund for Clean Air (TFCA) Program,
Mobile Source Incentive Fund Program & Other Programs
Schedule of Expenditures
Year Ended June 30, 2025
(Unaudited)

Programs	Salaries and Benefits	Services and Supplies	Program Distribution	Total
Program distribution	\$ -	\$ -	\$ 36,011,060	\$ 36,011,060
Intermittent control	717,632	1,553,308	-	2,270,940
TFCA administration	1,023,602	189,179	-	1,212,781
Miscellaneous incentive program	-	-	-	-
Regional electric vehicles deployment	871,698	787,110	-	1,658,808
Enhanced mobile source inspection	-	9,013	-	9,013
Vehicle buy-back	129,378	1,833,375	-	1,962,753
Mobile source incentive	648,316	19,072	-	667,388
Clean Cars For All	832,036	172,431	-	1,004,467
Total expenditures	<u>\$ 4,222,662</u>	<u>\$ 4,563,488</u>	<u>\$ 36,011,060</u>	<u>\$ 44,797,210</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Service Areas and Division

Schedule of Expenditures

Year Ended June 30, 2025

(Unaudited)

General Fund Service/Non-Service Area / Division	Approved Budget	Amended Budget	Actual Expenditures
<u>Service Areas and Division</u>			
Engineering & Compliance Service Area			
Compliance & Enforcement	\$ 20,942,035	\$ 20,948,004	\$ 17,093,726
Engineering	17,537,915	18,182,401	14,045,221
Engineering & Compliance Service Area Total	<u>38,479,950</u>	<u>39,130,405</u>	<u>31,138,947</u>
Equity & Community Programs Service Area			
Community Engagement Division	18,706,917	22,438,914	12,754,794
Diversity Equity & Inclusion	1,354,615	1,444,428	923,739
Community Investments Office	-	-	115,956
Strategic Incentives	880,491	962,317	314,690
Technology Implementation Office	1,170,331	1,195,592	603,790
Equity & Community Programs Service Area Total	<u>22,112,354</u>	<u>26,041,251</u>	<u>14,712,969</u>
Finance & Administration Service Area			
Administrative Services	12,511,974	13,651,806	8,940,958
Enterprise Technology Solutions	6,594,679	8,201,891	7,259,884
Executive	9,615,959	10,070,258	7,599,846
Finance	5,207,141	5,048,433	4,614,589
Human Resources	8,318,120	9,356,767	8,507,998
Information Services Operations	5,978,308	7,451,331	4,907,089
Finance & Administration Service Area Total	<u>48,226,181</u>	<u>53,780,486</u>	<u>41,830,364</u>
General Counsel Service Area			
Legal Services	5,846,319	7,277,333	5,760,321
General Counsel Service Area Total	<u>5,846,319</u>	<u>7,277,333</u>	<u>5,760,321</u>
Public Affairs Service Area			
Communications Office	3,839,104	4,715,333	3,420,561
External Affairs	1,734,064	1,649,364	757,482
Legislative	715,393	747,220	693,993
Public Affairs Service Area Total	<u>6,288,561</u>	<u>7,111,917</u>	<u>4,872,036</u>
Science & Policy Service Area			
Assessment, Inventory, & Model Division	3,741,598	3,998,201	3,793,269
Meteorology & Measurement Division	20,169,080	20,724,860	16,594,371
Planning	4,659,001	5,337,266	4,423,724
Rules Division	3,394,820	3,890,590	2,630,397
Science & Policy Service Area Total	<u>31,964,499</u>	<u>33,950,917</u>	<u>27,441,761</u>
Subtotal for Service Areas and Division	<u>152,917,864</u>	<u>167,292,309</u>	<u>125,756,398</u>
<u>Non-Service Areas and Division</u>			
Program Distribution	1,950,000	2,143,971	1,306,795
Debt Service: Principle	-	-	1,119,501
Debt Service: Interest	-	-	696,785
Capital Outlay	7,194,925	11,890,035	7,190,576
Total General Fund Expenditures	<u>\$ 162,062,789</u>	<u>\$ 181,326,315</u>	<u>\$ 136,070,055</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Service Areas and Division

Schedule of Expenditures

Year Ended June 30, 2025

(Unaudited)

Special Revenue Fund Service Area / Division	Approved Budget	Amended Budget	Actual Expenditures
Engineering & Compliance Service Area			
Compliance & Enforcement	\$ 26,500	\$ 20,013	\$ 9,013
Equity & Community Programs Service Area			
Strategic Incentives Division	17,605,187	8,273,162	7,567,223
Technology Implementation Office	3,578,049	1,658,806	1,658,808
Clean Cars for All	-	1,004,468	1,004,466
Technology Implementation Office Total	21,183,236	9,931,968	10,230,497
Public Affairs Service Area			
Communication Office	2,326,062	2,270,940	2,270,940
Program Distribution	111,707,522	71,179,181	71,179,181
Transfers Out	2,068,404	2,068,404	2,068,404
Total Special Revenue Fund Expenditures	\$ 135,243,320	\$ 83,402,102	\$ 85,758,035

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Indirect Cost Schedule

Year Ended June 30, 2025

(Unaudited)

Fund Number and Name	Allowable Cost	Grant Paid	General Fund Subsidy
3 - Transportation Fund for Clean Air	\$ 1,683,131	\$ 964,618	\$ 718,513
4 - Carl Moyer Program	1,284,182	527,400	756,782
8 - California Good Movement Bond	55,315	55,315	-
9 - Vehicle Mitigation	327,168	319,444	7,724
31 - Clean Car For All	375,827	201,627	174,200
Total	<u>\$ 3,725,623</u>	<u>\$ 2,068,404</u>	<u>\$ 1,657,219</u>

Notes to Schedule:

Indirect costs are expenses that are not directly attributable to a specific project or grant but are essential for the overall operation of the organization. These costs include administrative overhead, rent, utilities, and other shared services necessary to support grant-funded activities.

Each grant may have specific guidelines on the allowable administrative and indirect cost rates that the Air District can charge against the total grant amount. In cases where the grant funding does not fully cover these indirect costs, the General Fund may subsidize the remaining administrative costs over the grant period.

This schedule presents the total allowable indirect costs, the portion covered by grant funding, and any General Fund contributions used to subsidize costs beyond the grant's allowable reimbursement.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
 Penalty Assessment Allocation Schedule
 Year Ended June 30, 2025
 (Unaudited)

Total Penalty Assessment

1) General Fund	\$	4,008,496
2) Community Benefit Fund:		86,130,416
Total	\$	<u>90,138,912</u>

Community Benefit Fund Cost Breakdown

	Total Penalty Assessment	Administrative Costs Amount (9%)	Project Amount
Local Benefit Fund (LBF)	\$ 68,744,620	\$ 6,187,016	\$ 62,557,604
Regional Community Benefit Fund (RCBF)	17,385,796	1,564,722	15,821,074
Total	\$ 86,130,416	\$ 7,751,738	\$ 78,378,678

Local Benefit Fund (LBF) by Community

Community	Project Amount
Benicia	\$ 58,503,900
Byron	45,500
Martinez	3,321,500
Oakland	150,719
Richmond	453,744
San Jose	49,481
South San Francisco	28,210
Suisun City	4,550
Total	\$ <u>62,557,604</u>

Notes to Schedule:

In May 2024, the Bay Area Air Quality Management District (BAAQMD) Board of Directors adopted the Community Benefits Penalty Funds Policy, aiming to reinvest penalty funds from air quality violations back into the communities most affected by them. This policy ensures that significant portions of collected penalties are allocated to local projects designed to reduce pollution and enhance public health. The Board of Directors also approved allocating up to 9% of the Community Benefit Fund for administrative costs to establish the Community Investment Office, which will manage and distribute these funds to affected communities.

In Fiscal Year 2025, the total penalty assessment collected amounted to \$90.1 million. Of this amount, \$4 million has been allocated to General Fund operations, while the remaining \$86.1 million has been directed to the Community Benefit Fund. The Board of Directors has approved the allocation of up to 9% of the Community Benefit Fund for administrative costs to establish the Community Investment Office, which will oversee the management and distribution of these funds to affected communities. The \$86.1 million in the Community Benefit Fund is further allocated into two portions: the Local Benefit portion of \$68.7 million and the Regional Benefit portion of \$17.4 million. The Local Benefit portion is allocated according to the community where the violation occurred, while the Regional Benefit portion is intended to support other impacted communities within the Bay Area.

Methodology of Penalty Fund Allocation:

First \$100,000: Allocated to the Air District's general fund until the Fiscal Year Penalty Budget Cap is met; any excess is directed to the Regional Community Benefits Fund.

Amounts between \$100,000 and \$1,000,000: 50% is allocated to a Local Community Benefits Fund for the impacted community, and the remaining 50% goes to the General Fund or Regional Community Benefits Fund, depending on whether the budget cap has been reached.

Amounts exceeding \$1,000,000: 80% is directed to the Local Community Benefits Fund of the affected community, with the remaining 20% allocated to the General Fund or Regional Community Benefits Fund, contingent upon the budget cap status.

This structured approach ensures that communities directly impacted by air quality violations receive substantial support for local initiatives aimed at mitigating pollution and improving health outcomes.