



BOARD OF DIRECTORS  
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

CHRIS DALY - CHAIRPERSON  
HAROLD BROWN  
DAN DUNNIGAN  
JERRY HILL  
TIM SMITH

PATRICK KWOK - VICE CHAIRPERSON  
ROBERTA COOPER  
ERIN GARNER  
MARK ROSS

TUESDAY  
MAY 30, 2006  
IMMEDIATELY FOLLOWING  
EXECUTIVE COMMITTEE MEETING

FOURTH FLOOR CONFERENCE ROOM  
DISTRICT OFFICES

AGENDA

1. **CALL TO ORDER - ROLL CALL**
2. **PUBLIC COMMENT PERIOD** (*Public Comment on Non-Agenda Items Pursuant to Government Code § 54954.3*) Members of the public are afforded the opportunity to speak on any agenda item. All agendas for regular meetings are posted at District headquarters, 939 Ellis Street, San Francisco, CA, at least 72 hours in advance of a regular meeting. At the beginning of the regular meeting agenda, an opportunity is also provided for the public to speak on any subject within the Board's authority. Speakers will be limited to three (3) minutes each.
3. **APPROVAL OF MINUTES OF APRIL 26, 2006 AND MAY 10, 2006**
4. **THIRD QUARTER FINANCIAL REPORT – FISCAL YEAR 2005-2006**

**J. MCKAY/4629**  
[jmckay@baaqmd.gov](mailto:jmckay@baaqmd.gov)

*The Committee will discuss the third quarter financial report for FY 2005-06.*
5. **CONSIDER AMENDMENT TO FISCAL YEAR 2006/2007 OPERATING BUDGET**

**J. MCKAY/4629**  
[jmckay@baaqmd.gov](mailto:jmckay@baaqmd.gov)

*The Committee will consider recommending that the Board of Directors amend the FY 2006-2007 budget by increasing the Federal BioWatch Grants Funds Revenue from \$478,609 to a total of \$1,943,818 in conjunction with correspondingly increasing the budget for BioWatch (Program 809), and authorizing the Executive Officer to issue a purchase order not to exceed \$1,670,000.*
6. **DISTRICT FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2004/2005**

**J. MCKAY/4629**  
[jmckay@baaqmd.gov](mailto:jmckay@baaqmd.gov)

*A staff member from the CPA firm Caporicci & Larson will present the Audit Report for FY 2004-2005. This is an informational item.*
7. **AIR DISTRICT RESPONSE TO AUDIT FINDINGS FOR FY 2004/2005**

**J. MCKAY/4629**  
[jmckay@baaqmd.gov](mailto:jmckay@baaqmd.gov)

*Staff will provide a response to the auditor's findings.*

8. **COMMITTEE MEMBER COMMENTS/OTHER BUSINESS**

*Any member of the Board, or its staff, on his or her own initiative or in response to questions posed by the public, may: ask a question for clarification, make a brief announcement or report on his or her own activities, provide a reference to staff regarding factual information, request staff to report back at a subsequent meeting concerning any matter or take action to direct staff to place a matter of business on a future agenda. (Gov't Code § 54954.2).*

9. **TIME AND PLACE OF NEXT MEETING – 9:45 a.m., WEDNESDAY, JUNE 28, 2006 – 939 ELLIS STREET, SAN FRANCISCO, CA 94109**

10. **ADJOURNMENT**

**CONTACT CLERK OF THE BOARD - 939 ELLIS STREET SF, CA 94109**

**(415) 749-4965**  
**FAX: (415) 928-8560**  
**BAAQMD homepage:**  
[www.baaqmd.gov](http://www.baaqmd.gov)

- To submit written comments on an agenda item in advance of the meeting.
- To request, in advance of the meeting, to be placed on the list to testify on an agenda item.
- To request special accommodations for those persons with disabilities notification to the Clerk's Office should be given at least 3 working days prior to the date of the meeting, so that arrangements can be made accordingly.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Daly and Members  
of the Budget and Finance Committee

From: Jack P. Broadbent  
Executive Officer/APCO

Date: May 16, 2006

Re: Budget and Finance Committee Draft Minutes

RECOMMENDED ACTION:

Approve attached draft minutes of the Budget and Finance Committee meetings of April 26, 2006 and May 10, 2006.

DISCUSSION

Attached for your review and approval are the draft minutes of the April 26, 2006 and May 10, 2006 Budget and Finance Committee meetings.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

**Bay Area Air Quality Management District  
939 Ellis Street  
San Francisco, California 94109**

**DRAFT MINUTES**

Summary of Board of Directors  
Budget & Finance Committee Meeting  
9:45 a.m., Wednesday, April 26, 2006

1. **Call to Order:** Chairperson Chris Daly called the meeting to order at 9:45a.m.  
  
**Roll Call:** Chris Daly, Chair; Harold Brown, Roberta Cooper, Jerry Hill, Patrick Kwok, Mark Ross, Tim Smith.  
  
**Absent:** Dan Dunnigan, Erin Garner.  
  
**Also Present:** Gayle B. Uilkema.
2. **Public Comment Period:** There were none.
3. **Approval of Minutes of March 22, 2006:** Director Brown moved approval of the minutes; seconded by Director Hill; carried unanimously without objection.
4. **Overview of Preliminary Budget Meeting for FY 2006-2007:** *The Committee discussed the preliminary budget for FY 2006-2007.*

Jack Broadbent, Executive Officer/APCO noted that the Board of Directors will officially refer the fiscal year 2006/2007 Budget to the Budget and Finance Committee on May 3, 2006. Mr. Broadbent reported on the overall direction of the budget and noted that the fiscal year 2006/2007 budget is balanced and is based on proposed fee increases and no transfers from undesignated reserves.

Jeff McKay, Chief Financial Officer, reviewed the fiscal challenges facing the District. Mr. Broadbent and Mr. McKay discussed the following key Programs in the budget:

- Community Air Risk Evaluation (CARE) program,
- Climate protection,
- Enhanced outreach on woodsmoke,
- Production system replacement for IRIS and databank,
- District security, and
- Community mitigation, which is a new program built into the budget in lieu of Supplemental Environmental Projects (SEPs).

The addition of four key staff positions was reviewed. The four positions include an Air Quality Specialist for Enforcement, a Principal Air Quality Engineer for toxics modeling, a Principal Procurement Agent, and an Environmental Planner II.

Mr. McKay reviewed and discussed the consolidated revenue and expenditures; general fund expenditures; Transportation Fund for Clean Air (TFCA) expenditures; and Mobile Source Incentive Fund (MSIF) expenditures. Revenue and expenditure projections were discussed along with fund balances.

The Committee discussed numerous items in the budget, including security services, proposed overtime expenses, additional revenue generated by permit fees, and the property tax estimates. Director Smith requested that staff go back five years to see what the trend in property tax revenue was. There was also discussion on travel expenses.

**Committee Action:** The Committee provided direction to staff on the proposed fiscal year 2006/2007 budget.

5. **Proposed Amendments to District Fee Regulation:** *The Committee considered recommending to the Board of Directors that staff proceed with the proposed amendments to the District fee regulation.*

Brian Bateman, Director of Engineering, presented the report and provided background on the District's authority to collect fees; reviewed the proposed fee amendments; provided examples of permit renewal fee increases; and reviewed the rule development schedule. The public hearing and recommendation for adoption by the Board of Directors is scheduled for the June 7, 2006 Regular Board meeting.

Mr. Bateman commented that the proposed fee regulation amendments are in line with the recommendations of the Cost Recovery Study done in 2005.

**Speakers:** The following individuals spoke on this agenda item:

Dennis Bolt  
Western States Petroleum Association(WSPA)  
Concord, CA 94518

Dan Phelan  
San Francisco, CA

**Committee Action:** Director Cooper moved that the Committee recommend to the Board of Directors that staff proceed with the proposed amendments to the District's fee regulation; seconded by Director Kwok; carried unanimously without objection.

6. **Committee Member Comments/Other Business.** Board Chair Uilkema requested that staff provide an analysis of the District's interest income at a future meeting of the Committee.
7. **Time and Place of Next Meeting:** 9:45 a.m., Wednesday, May 10, 2006, 939 Ellis Street, San Francisco, California 94109
8. **Adjournment:** The meeting adjourned at 11:21 a.m.

Mary Romaidis  
Clerk of the Boards

**Bay Area Air Quality Management District  
939 Ellis Street  
San Francisco, California 94109**

**DRAFT MINUTES**

Summary of Board of Directors  
Budget & Finance Committee Meeting  
9:45 a.m., Wednesday, May 10, 2005

1. **Call to Order:** Chairperson Chris Daly called the meeting to order at 9:55 a.m.

**Roll Call:** Chris Daly, Chair; Patrick Kwok, Mark Ross.

**Absent:** Harold Brown, Roberta Cooper, Dan Dunnigan, Erin Garner, Jerry Hill, Tim Smith.

**Also Present:** Gayle B. Uilkema.

2. **Public Comment Period:** There were none.

3. **Approval of Minutes of April 26, 2006:** Due to the lack of a quorum, approval of the minutes was deferred to the next meeting.

4. **Continued Preliminary FY 2006-2007 Budget Discussions:** *The Committee continued discussion of the preliminary budget for FY 2006-2007.*

Jeff McKay, Chief Financial Officer, presented the report and noted that the Committee was provided a preliminary overview of the budget at the April 26<sup>th</sup> Committee meeting. Mr. McKay provided information on the three follow-up items from the last meeting. They include budgeted travel expenses, budgeted overtime, and projections for increased County Revenue.

There were no public speakers on this agenda item.

There was discussion on the Transportation Fund for Clean Air (TFCA) budget and if the District could consider widening the scope of the program and budgeting for incentives regarding alternative transportation.

**Committee Action:** The Committee discussed and accepted the budget, but due to lack of a quorum, the Committee determined to forward the proposed fiscal year 2006/2007 Budget to the Board of Directors without a recommendation.

5. **Committee Member Comments/Other Business.** Board Chair Uilkema noted that AB 2444 is a proposed bill that would increase vehicle registration and the Air District might receive some revenue from this bill.

6. **Time and Place of Next Meeting:** The next Committee meeting is scheduled for 9:45 a.m., Wednesday, May 24, 2006, 939 Ellis Street, San Francisco, CA 94109.
7. **Adjournment:** The meeting adjourned at 10:20 a.m.

Mary Romaidis  
Clerk of the Boards

**BAY AREA AIR QUALITY MANGEMENT DISTRICT**

Memorandum

To: Chairperson Daly and Members  
of the Budget and Finance Committee

From: Jack P. Broadbent  
Executive Officer/APCO

Date: April 28, 2006

Re: Third Quarter Financial Report – Fiscal Year 2005-06

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION

GENERAL FUND BUDGET: STATEMENT OF REVENUE

Comparison of Budget to Actual Revenue

- County Revenue receipts were \$9,027,248 (60.0%) of budgeted revenue.
- Permit Fee receipts were \$15,196,010 (89.3%) of budgeted revenue.
- Title V Permit Fees were \$995,937 (49.4%) of budgeted revenue.
- Asbestos Fees were \$1,159,663 (71.7%) of budgeted revenue.
- Toxic Inventory Fees were \$412,079 (80.8%) of budgeted revenue.
- Penalties and Settlements were \$3,092,425 (154.6%) of budgeted revenue.
- Miscellaneous Revenue receipts were \$273,193 (151.8%) of budgeted revenue.

GENERAL FUND BUDGET: STATEMENT OF EXPENDITURES

Comparison of Budget to Actual Expenditures

- Salaries and Benefits were \$26,899,948 (71.9%) of estimated expenditures.
- Operational Services and Supplies were \$6,044,865 (66.1%) of estimated expenditures.
- Capital Outlay was \$171,215 (41.6%) of estimated expenditures.



TFCA FUND: STATEMENT OF INCOME AND EXPENDITURES

- Total Revenue was \$4,955,587 (48.7%) of estimated revenue and expenditures.
- In keeping with TFCA Fund requirements, expenditures must equal revenue.
- Salary and Benefits were \$1,023,941 (53.3%) of estimated expenditures.
- Operational Services and Supplies were \$3,931,646 (47.6%) of estimated expenditures.

FUND BALANCES

<b>FUND BALANCES</b>	<b>6/30/2004 Audited</b>	<b>6/30/2005 Unaudited</b>	<b>6/30/2006 Projected</b>
<b>SPECIAL RESERVES:</b>			
Reserve for Imprest Cash (Cash Revolving Fund)	1,200	1,200	1,200
Reserve for Building and Facilities	2,894,175	2,894,175	2,772,175
Reserve for PERS Funding	3,500,000	3,500,000	3,100,000
Reserve for Radio Replacement	3,500,000	3,500,000	3,500,000
Reserve for State Ozone Modeling Plan	350,000	350,000	0
Reserve for Production System (Best of Breed)	2,100,000	500,000	250,000
Reserve for Prior Year Adjustments	15,000	15,000	15,000
Reserve for Capital Equipment	378,000	378,000	297,925
Reserve for Encumbrances	0	1,760,075	1,700,000
Reserve for Contingencies	265,000	400,000	400,000
Reserve for Workers Compensation Self Funding	1,000,000	1,000,000	1,000,000
<b>TOTAL SPECIAL RESERVES:</b>	<b>14,003,375</b>	<b>14,298,450</b>	<b>13,036,300</b>
<b>MULTI-YEAR APPROPRIATIONS:</b>			
Appropriation – Production System	0	1,485,743	1,555,667
Appropriation - Other	0	37,053	0
<b>TOTAL MULTI-YEAR APPROPRIATIONS:</b>	<b>0</b>	<b>1,522,796</b>	<b>1,555,667</b>
<b>UNDESIGNATED:</b>	<b>8,125,285</b>	<b>8,733,272</b>	<b>8,101,803</b>
<b>TOTAL FUND BALANCES</b>	<b>22,128,660</b>	<b>24,554,518</b>	<b>22,693,770</b>

BUDGET CONSIDERATION/FINANCIAL IMPACT

No impact on Fiscal Year 2005/2006 budget.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Michael White  
Reviewed by: Jeffrey McKay

**BAY AREA AIR QUALITY MANGEMENT DISTRICT**

Memorandum

To: Chairperson Daly and Members  
of the Budget and Finance Committee

From: Jack P. Broadbent  
Executive Officer/APCO

Date: May 15, 2006

Re: Consider Amending FY 2006/2007 Operating Budget to Recognize  
Increased Revenue for BioWatch Monitoring Network Expansion and  
Continued Operation, and Authorize EO/APCO to Issue Purchase Order  
not to exceed \$1,670,000 for Contract Services Related to Network  
Expansion and Continued Operation

RECOMMENDED ACTION:

Consider recommending that the Board of Directors amend the FY 2006/2007 Budget by increasing the Federal BioWatch Grants Fund Revenue from \$478,609 to a total of \$1,943,818 and correspondingly increase the budget for BioWatch (Program 809), and authorize the Executive Officer/APCO to issue a purchase order not to exceed \$1,670,000.

SUMMARY:

In accordance with the District's Administrative Code, Division II, Fiscal Policies and Procedures, Section 4.3, staff requests that the Committee recommend that the Board authorize the Executive Officer to amend the FY 2006/2007 budget as indicated and award an amended contract and issue a Purchase Order for an increase in monitoring activities for the BioWatch program to T&B Systems not to exceed the amount of \$1,670,000. The funding source for this increase is a Department of Homeland Security Grant that had not been awarded in time to include the funds in the proposed FY 2006/2007 budget.

DISCUSSION:

The BioWatch program began in February of 2003 with eight locations in the San Francisco area. In July of 2003, the network expanded to include 6 additional sites in the San Jose area. The operational demands of this network necessitated the use of a contractor and a Request for Quotation (RFQ) was sent to five qualified contractors. Staff received proposals from three contactors who responded to the RFQ. After a thorough evaluation, the contract was awarded to T&B Systems (Board of Directors Memo, Agenda Item 5E, dated August 26, 2003).

The Department of Homeland Security has determined that the existing network must be expanded again to provide additional coverage for the Bay Area to meet the objectives of the BioWatch program. The operational nature of the network will not change, but the

number of sampling locations will be doubled. The costs to accomplish the expansion are not proportional, as new sites must be located, obtained and developed. As a result, the original contract with T&B Systems has been modified to include the development and operation of these additional sites.

T&B has operated the network effectively and efficiently. The Department of Homeland Security has noted that T&B's operational costs are among the lowest in the nation. They have met every operational demand within budget. Continued use of this firm would allow for continuity of this extremely important program at a fair market cost. The modified contract has been written to terminate if Federal Grant funds are exhausted or become unavailable.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

Funds for this Budget Amendment and related Purchase Order issuance are from a Homeland Security Grant that will cover both the contract amount for operation and expansion of the existing network and the associated District costs of administering the program. There will be no financial impact to the District's general revenue resources.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Jeff McKay  
Gary Kendall

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

Memorandum

To: Chairperson Daly and Members  
of the Budget and Finance Committee

From: Jack Broadbent  
Executive Officer/APCO

Date: May 18, 2006

Re: District Financial Audit Report for Fiscal Year 2004/2005

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION:

The audit report confirms that the District's financial statements "...present fairly, in all material respects, the financial position of the governmental activities of the District as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with generally accepted accounting principles in the United States." The report on the basic financial statements is unqualified with no reportable conditions and no instances of non-compliance, and no financial statement findings noted.

The auditors report on the Federal award program noted as a finding that the District has not yet submitted the report on Utilization of Small, Minority and Women's Business Enterprises for the Federal fiscal year 2005. The District is in the process of preparing that report. The auditors report also noted as a questioned cost that, until May of 2005, the District was lacking a special billing code for the Toxics Monitoring grant.

The auditors report on the Transportation For Clean Air program noted as a finding that TFCA program audits occurred only for closed programs in the fiscal years 2002-03 and 2003-04. The District has issued a Request for Proposal for audit services to address this issue.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

None.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Jeff McKay

# Bay Area Air Quality Management District

San Francisco, California

*Basic Financial Statements,  
Single Audit Report, Independent Auditors'  
Reports and Transportation Fund for Clean Air  
(TFCA) Program*

*For the year ended June 30, 2005*



# Bay Area Air Quality Management District

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Bay Area Air Quality Management District (District) as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the District as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the District adopted Statement of the Governmental Accounting Standards Board No. 40, *Deposit and Investment Risk Disclosures (Amendment of GASB No. 3)*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2006 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 grants.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, budgetary comparison information and other information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit this information and express no opinion on it.

*Caporicci & Larson*

Oakland, California  
February 17, 2006

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2005.

**A. Financial Highlights**

- The assets of the District exceeded its liabilities at the close of fiscal year 2004-05 by \$54,831,124 (net assets). Of this amount, \$24,812,856 could be used to finance the District's daily operations without legal or legislative constraints (unrestricted assets); \$22,444,994 was restricted to specific uses (restricted assets); and \$7,573,274 was invested in capital assets. Net assets increased by \$5,675,824 from fiscal year 2003-04.
- The District's governmental funds reported a combined fund balance of \$46,693,608. Of this amount, \$24,812,856 represents General Fund balance and \$21,880,752 represents Special Revenue Fund balance. Of the total General Fund balance, \$8,991,610 represents unreserved fund balance with the remaining balance of \$15,821,246 reserved for specific uses. Table 1 shows the District's governmental fund balances as of June 30, 2005.

**Table 1. Governmental Funds Combined Fund Balance as of June 30, 2005**

Category	General Fund	Special Revenue Fund	Total
Reserved for			
Building and Facilities	\$ 2,894,175	-	\$ 2,894,175
PERS Super Funding	3,500,000	-	3,500,000
Radio Replacement	3,500,000	-	3,500,000
State Implementation Plan	350,000	-	350,000
Production System	500,000	-	500,000
Capital Equipment	378,000	-	378,000
Contingencies	400,000	-	400,000
Adjustment - Prior Years	15,000	-	15,000
Revolving Fund	1,200	-	1,200
Self-funded Workers Comp.	1,000,000	-	1,000,000
Encumbrances	1,760,075	\$ 1,875,310	3,635,385
Multi-year Appropriations	<u>1,522,796</u>	-	<u>1,522,796</u>
<b>Total Reserved</b>	<b>\$15,821,246</b>	<b>\$ 1,875,310</b>	<b>\$17,696,556</b>
Undesignated	<u>8,991,610</u>	<u>20,005,442</u>	<u>28,997,052</u>
<b>Total Fund Balance</b>	<b>\$24,812,856</b>	<b>\$21,880,752</b>	<b>\$46,693,608</b>

- A key measure of the General Fund's liquidity is the percentage of its fund balance to total expenditures during the fiscal year. Unreserved General Fund balance was 20.7% of General Fund expenditures, and total fund balance was 57.3% of General Fund expenditures.
- The District recorded a prior period adjustment during the year that reduced net assets and General Fund balance by \$1,249,526 as of July 1, 2004 (See Note 15).
- The General Fund received total revenue of \$47,228,342 during fiscal year 2004-05 - an increase of \$3,206,113 over fiscal year 2003-04. General Fund expenditures totaled \$43,314,988 - an increase of \$2,004,072 over fiscal year 2003-04. General Fund revenues exceeded General Fund expenditures by \$3,913,354 in fiscal year 2004-05.

## **B. Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Bay Area Air Quality Management District's basic financial statements. The District's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also includes required and other supplementary information in addition to the basic financial statements.

### **Government-wide Financial Statements**

The focus of government-wide financial statements is on the overall financial position and activities of the District. These financial statements are constructed around the concept of the primary government and its component units and they are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. They provide information about the activities of the District as a whole and present a longer-term perspective of the District's finances. Government-wide financial statements include the Statement of Net Assets and the Statement of Activities and Changes in Net Assets.

The Statement of Net Assets reports all assets held and all liabilities owed by the District on a full accrual basis. The difference between the assets held and the liabilities owed is reported as *Net Assets*. The net assets total is comparable to total stockholder's equity presented on the balance sheet of a private enterprise. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Assets as of June 30, 2005 is presented on Page 13.

The Statement of Activities and Changes in Net Assets reports the net cost of the District's activities by category and is also prepared on a full accrual basis. Under the full accrual basis of accounting, revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of the related cash flows. The focus of the Statement of Activities and Changes in Net Assets is on the cost of various work programs performed by the District. The statement begins with a column that identifies the total cost of these programs followed by columns that summarize the District's program revenues by major category. The difference between expenses and revenues represents the net cost or benefit of the District's work programs. General revenues are then added to the net cost/benefit to calculate the change in net assets. The Statement of Activities and Changes in Net Assets is presented on pages 14 and 15.

All of the 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 District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For governmental activities, these statements tell how these services were financed in the short-term and what is left over for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's major funds. The District maintains two governmental funds; the General Fund and the Special Revenue Fund.

### **Governmental Funds**

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

Balance Sheets prepared under the modified accrual basis of accounting have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. Specifically, cash and receivables that are deemed collectible within a very short period of time are reported on the balance sheet. Capital assets such as land and buildings are not reported in governmental fund financial statements. Fund liabilities include amounts that will be paid within a very short period of time after the end of the fiscal year. Long-term liabilities such as outstanding bonds are not included. The difference between a fund's total assets and total liabilities represents the fund balance. The unrestricted portion of fund balance represents the amount available to finance future activities. The governmental fund balance sheets can be found on page 21.

The Statement of Revenue, Expenditures and Changes in Fund Balance includes only revenues and expenditures that were collected in cash or paid with cash during the fiscal year or very shortly after the end of the fiscal year. The governmental fund Statements of Revenue, Expenditures and Changes in Fund Balance can be found on pages 24 and 25.

Since different bases of accounting are used to prepare these statements, a reconciliation is required to facilitate the comparison between the government-wide statements and the fund financial statements. The Reconciliation of the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets is on page 22. The Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets can be found on page 26.

**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 27 to 39.

**Required and Other Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the governmental funds' budget comparison schedule and the California Public Employees Retirement System (PERS) Schedule of Funding Progress on pages 43 to 47.

**C. Government-Wide Financial Analysis**

Our analyses focus on net assets and changes in the net assets of the District's governmental activities. Table 2 below shows a condensed Statement of Net Assets as of June 30, 2005 compared to the fiscal year ended June 30, 2004.

**Table 2. Statement of Net Assets as of June 30, 2005 and June 30, 2004**

	Governmental Activities June 30, 2005	Governmental Activities June 30, 2004	Increase/ (Decrease)
Current & Other Assets	\$ 85,785,896	\$ 75,881,248	\$ 9,904,648
Capital Assets	<u>7,573,474</u>	<u>7,909,417</u>	<u>( 335,943)</u>
<b>Total Assets</b>	<b>\$ 93,359,370</b>	<b>\$ 83,790,665</b>	<b>\$ 9,568,705</b>
Long-Term Liabilities	\$ 2,726,568	\$ 2,350,522	\$ 376,046
Current Liabilities	<u>35,801,478</u>	<u>31,035,357</u>	<u>4,766,121</u>
<b>Total Liabilities</b>	<b>\$ 38,528,046</b>	<b>\$ 33,385,839</b>	<b>\$ 5,142,167</b>
Net Assets:			
Invested in Capital Assets	\$ 7,573,274	\$ 7,909,417	\$ ( 336,143)
Restricted	22,444,994	0	22,444,994
Unrestricted	<u>24,812,856</u>	<u>\$ 42,495,409</u>	<u>(17,682,553)</u>
<b>Total Net Assets</b>	<b>\$ 54,831,124</b>	<b>\$ 50,404,826</b>	<b>\$ 4,426,298</b>

As noted earlier, total net assets may serve over time as a useful indicator of the District's financial position. At June 30, 2005 the District's assets exceeded its liabilities by \$ 54,831,124 - an increase of \$4,426,298 over the previous fiscal year.

The District uses its capital assets to carry out its mission of protecting public health while being sensitive to the economic needs of local businesses and these assets are not available for future spending. Restricted assets are to be used for specific programs and purposes according to legal terms and conditions. The remaining portion of the District's net assets is unrestricted and may be used to meet the District's obligations in carrying out its day-to-day operations.

The following table Changes in Net Assets for the fiscal year ending June 30, 2005 compared with the fiscal year ended June 30, 2004.

**Table 3. Statement of Changes in Net Assets for Fiscal Years 2004-05 and 2003-04**

	Governmental Activities FY 2004-05	Governmental Activities FY 2003-04
<b><u>Revenues:</u></b>		
<b>Program Revenues:</b>		
TFCA DMV Fees	\$ 21,951,613	\$ 21,056,252
Operating Grants and Contributions	3,441,960	3,080,803
Permit Fees	16,146,867	15,008,295
Title V Permit Fees	1,282,621	1,086,830
State Subvention	1,730,915	1,748,051
Spare the Air Grant (CMAQ)	1,779,643	729,256
Federal Grants (EPA)	3,112,271	2,301,882
Penalties & Variance Fees	3,090,636	2,394,755
AB 2588 Income	541,759	912,862
Asbestos Fees	1,641,880	1,541,390
District Services & Consulting	5,589	9,521
Interest Revenue	2,633,273	2,015,706
Other Grants	702,731	978,468
AB 434 Others	1,353,248	976,594
Miscellaneous Revenue	988,607	836,570
County Apportionments	\$ 15,254,881	\$ 15,418,369
<b>Total Revenues</b>	<b>\$ 75,658,494</b>	<b>\$ 70,095,603</b>
<b>Expenses:</b>		
Salaries and Benefits	\$ 33,110,045	\$ 30,173,334
Services and Supplies	16,069,420	12,857,167
Capital Outlay	1,373,649	413,315
Program Distributions	19,429,556	20,912,492
<b>Total Expenses</b>	<b>\$ 69,982,670</b>	<b>\$ 64,356,308</b>
<b>Increase (Decrease) In Net Assets at June 30, 2005 &amp; 2004</b>	<b>\$ 5,675,824</b>	<b>\$ 5,739,295</b>

### **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 the District's activities are either self-financing or are drawing funds from the general funds of the government. Governmental functions of the District are predominately supported by fees, property taxes, subventions, grants, and penalties and settlements. The penalties and settlements are one-time revenues which are over

and above the regular revenues directly related to the programs. The primary governmental activities of the District are: to advance clean air technology; to ensure compliance with clean air rules; to develop programs to achieve clean air; to develop rules to achieve clean air; and to monitor air quality.

Program revenues increased by \$5,156,032 in fiscal year 2004-05 largely due to increases in Permit Fees, DMV Fees and Grant Revenues. Expenses increased by \$5,626,362 because of increased personnel, services and supplies costs.

The FY 2004-05 amended General Fund budget reflects a decrease in appropriations of \$125.7 thousand from the adopted budget. The decrease was the result of actions taken by the Board of Directors (Board) in response to state budget actions. Also, changes can be attributed to Board approved uses of undesignated fund balance for expenditures that were unknown at the time the budget was prepared.

### **Capital Assets**

At June 30, 2005 the District's investment in capital assets was \$7.5 million net of accumulated depreciation. Capital assets include land, buildings, laboratory equipment, air monitoring stations, computers, office furniture and District fleet vehicles.

### **D. Economic Factors and Next Year's Budget**

The District receives approximately 32% of its General Fund revenue from property taxes levied in nine Bay Area counties and 34% from permit fees charged to local businesses. Consequently, District revenues are impacted by changes in the state and local economy. The District takes a fiscally conservative approach to its budget and it strives to balance its budget within available current revenues. In an effort to recover a greater share of the costs of maintaining air quality, the District increased its permitting fees by 7% in fiscal year 2005-06. More increases are planned for the future. The District will also regain in fiscal year 2006-07 \$1.4 million of property tax that was taken away by the State in fiscal years 2003-04 and 2004-05. The District's future looks bright and its continued focus on long term financial planning will ensure the vitality and effectiveness of its programs.

### **E. Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Chief Financial Officer, Jeff McKay, at 939 Ellis Street, San Francisco, CA 94109.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**Bay Area Air Quality Management District**  
**Statement of Net Assets**  
**June 30, 2005**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 73,877,956
Receivables:	
Accounts	10,260,595
Interest	563,273
Other	1,021,972
Prepays and deposits	60,900
Total current assets	<u>85,784,696</u>
Noncurrent assets:	
Cash in revolving fund	1,200
Capital assets:	
Nondepreciable	1,135,838
Depreciable buildings, net	6,437,436
Total capital assets	<u>7,573,274</u>
Total noncurrent assets	<u>7,574,474</u>
<b>Total assets</b>	<u><u>93,359,170</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	2,958,241
Accrued payroll	1,452,421
Due to other programs	41,110
Other liabilities	49,017
Unearned revenue	31,297,297
Compensated absences	3,392
Total current liabilities	<u>35,801,478</u>
Noncurrent liabilities:	
Long-term debt:	
Compensated absences	2,726,568
Total noncurrent liabilities	<u>2,726,568</u>
<b>Total liabilities</b>	<u><u>38,528,046</u></u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	<u>7,573,274</u>
Restricted for:	
Special program	564,242
TFCA program	21,880,752
Total restricted	<u>22,444,994</u>
Unrestricted	24,812,856
<b>Total net assets</b>	<u><u>\$ 54,831,124</u></u>

See accompanying Notes to Basic Financial Statements.

**Bay Area Air Quality Management District**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
<b>Governmental activities:</b>				
General government	\$ 43,641,475	\$ 24,088,266	\$ 7,876,876	\$ 12,926
TFCA program	26,341,195	-	24,413,238	3,441,960
<b>Total governmental activities</b>	<b>\$ 69,982,670</b>	<b>\$ 24,088,266</b>	<b>\$ 32,290,114</b>	<b>\$ 3,454,886</b>

**General revenues:**

County apportionment:

Alameda  
Contra Costa  
Marin  
Napa  
San Francisco  
San Mateo  
Santa Clara  
Solano  
Sonoma

Redevelopment

Total county apportionment

Investment income not restricted for a specific program

Gain on sales of capital assets

**Total general revenues**

**Changes in net assets**

Net assets - beginning of year, as restated (Note 15)

Net assets - end of year

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<u>Program Revenues</u>	Governmental Activities Net (Expenses) Revenues
<u>Total</u>	<u>Revenues</u>
\$ 31,978,068	\$ (11,663,407)
27,855,198	1,514,003
<u>\$ 59,833,266</u>	<u>(10,149,404)</u>

3,137,450
1,634,676
828,776
310,649
2,032,467
2,047,914
3,942,789
446,251
821,133
52,776
<u>15,254,881</u>
559,635
10,712
<u>15,825,228</u>
5,675,824
49,155,300
<u>\$ 54,831,124</u>

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**FUND FINANCIAL STATEMENTS**

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**Bay Area Air Quality Management District**  
**Governmental Fund Financial Statements**  
**For the year ended June 30, 2005**

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**General Fund**

The General Fund is the general fund of the District. It is used to account for all financial resources and transactions except those required to be accounted for in another fund.

**Special Revenue Fund**

The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

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**Bay Area Air Quality Management District**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	General Fund	Special Revenue Fund	Total
<b>ASSETS</b>			
Cash and investments in county treasury	\$ 20,063,314	\$ 53,814,642	\$ 73,877,956
Cash in revolving fund	1,200	-	1,200
Receivables:			
Accounts	4,711,651	5,548,944	10,260,595
Interest	169,545	393,728	563,273
Other	753,754	268,218	1,021,972
Due from other fund	6,801,783	-	6,801,783
Prepays and deposits	60,900	-	60,900
<b>Total assets</b>	<b>\$ 32,562,147</b>	<b>\$ 60,025,532</b>	<b>\$ 92,587,679</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 1,491,279	\$ 1,466,962	\$ 2,958,241
Accrued salaries and wages payable	1,452,421	-	1,452,421
Due to other funds	-	6,801,783	6,801,783
Due to other	-	41,110	41,110
Other liabilities	49,017	-	49,017
Compensated absences - current	3,392	-	3,392
Compensated absences - long-term	2,726,568	-	2,726,568
Deferred revenue	2,026,614	29,834,925	31,861,539
<b>Total liabilities</b>	<b>7,749,291</b>	<b>38,144,780</b>	<b>45,894,071</b>
<b>Fund Balances:</b>			
Reserved for:			
Building and facilities	2,894,175	-	2,894,175
PERS super funding	3,500,000	-	3,500,000
Radio replacement	3,500,000	-	3,500,000
State implementation plan	350,000	-	350,000
Production system	500,000	-	500,000
Capital equipment	378,000	-	378,000
Contingencies	400,000	-	400,000
Adjustment - prior years	15,000	-	15,000
Revolving fund	1,200	-	1,200
Self-funded workers' compensation	1,000,000	-	1,000,000
Encumbrances	1,760,075	1,875,310	3,635,385
Multiyear appropriations	1,522,796	-	1,522,796
Unreserved for:			
Undesignated	8,991,610	20,005,442	28,997,052
<b>Total fund balances</b>	<b>24,812,856</b>	<b>21,880,752</b>	<b>46,693,608</b>
<b>Total liabilities and fund balances</b>	<b>\$ 32,562,147</b>	<b>\$ 60,025,532</b>	<b>\$ 92,587,679</b>

See accompanying Notes to Basic Financial Statements.

**Bay Area Air Quality Management District**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2005**

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<b>Total Fund Balances - Total Governmental Funds</b>	<b>\$ 46,693,608</b>
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.

Non-depreciable capital assets	1,135,838
Depreciable capital assets, net	6,437,436
Total	7,573,274

Revenues which are deferred on the Funds Balance Sheet because they are not available. However, revenue was recognized in the government-wide financial statements in the Statement of Activities and accordingly increased net assets on the Statement of Net Assets.

	564,242
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<b>Net Assets of Governmental Activities</b>	<b>\$ 54,831,124</b>
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**Bay Area Air Quality Management District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Governmental Funds**  
**For the year ended June 30, 2005**

	General Fund	Special Revenue Fund	Total
<b>REVENUES:</b>			
<b>Program revenues:</b>			
TFCA DMV fees	\$ -	\$ 21,951,613	\$ 21,951,613
Carl Moyer program	-	1,025,320	1,025,320
Lower emission school bus program	-	2,416,640	2,416,640
Permit fees	16,146,867	-	16,146,867
Title V permit fees	1,282,621	-	1,282,621
State subvention	1,730,915	-	1,730,915
Spare the air grants	1,779,643	-	1,779,643
Calpine - Los Esteros	19,700	-	19,700
Federal grant - EPA	3,112,271	-	3,112,271
Penalties and variance fees	3,090,636	-	3,090,636
Asbestos	1,641,880	-	1,641,880
AB 2588 income	541,759	-	541,759
Hearing board	27,554	-	27,554
District Services	5,589	-	5,589
Interest	559,635	1,514,003	2,073,638
Other grants	702,731	-	702,731
Bart revenue	-	270,998	270,998
AB 434 others	676,624	676,624	1,353,248
Miscellaneous	454,598	-	454,598
Special Environmental Projects	200,438	-	200,438
Total program revenue	31,973,461	27,855,198	59,828,659
<b>General revenues:</b>			
County apportionment:			
Alameda	3,137,450	-	3,137,450
Contra Costa	1,634,676	-	1,634,676
Marin	828,776	-	828,776
Napa	310,649	-	310,649
San Francisco	2,032,467	-	2,032,467
San Mateo	2,047,914	-	2,047,914
Santa Clara	3,942,789	-	3,942,789
Solano	446,251	-	446,251
Sonoma	821,133	-	821,133
Total county apportionment	15,202,105	-	15,202,105
Redevelopment	52,776	-	52,776
Total general revenue	15,254,881	-	15,254,881
<b>Total revenues</b>	47,228,342	27,855,198	75,083,540

(Continued)



**Bay Area Air Quality Management District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Governmental Funds, Continued**  
**For the year ended June 30, 2005**

	General Fund	Special Revenue Fund	Total
<b>EXPENDITURES:</b>			
Current:			
General government:			
Program distribution	969,858	-	969,858
Executive office	4,866,976	-	4,866,976
Administrative services	3,761,941	-	3,761,941
Legal services	1,539,127	-	1,539,127
Public information and outreach	3,178,831	-	3,178,831
Compliance and enforcement	8,905,926	-	8,905,926
Engineering	7,100,668	-	7,100,668
Planning	3,237,313	-	3,237,313
Information systems	2,785,532	-	2,785,532
Technical services	5,595,167	-	5,595,167
Total general government	41,941,339	-	41,941,339
TFCA program:			
Program distribution	-	18,459,698	18,459,698
Smoking vehicle	-	861,489	861,489
Intermittent control	-	1,105,659	1,105,659
Transportation Fund for Clean Air administration	-	1,110,997	1,110,997
Vehicle buy-back	-	4,803,352	4,803,352
Total TFCA program	-	26,341,195	26,341,195
Capital outlay	1,373,649	-	1,373,649
<b>Total expenditures</b>	43,314,988	26,341,195	69,656,183
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	3,913,354	1,514,003	5,427,357
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from sale of capital assets	20,368	-	20,368
<b>Total other financing sources (uses)</b>	20,368	-	20,368
<b>NET CHANGE IN FUND BALANCE</b>	3,933,722	1,514,003	5,447,725
<b>FUND BALANCES:</b>			
Beginning of year, as restated (Note 15)	20,879,134	20,366,749	41,245,883
End of year	\$ 24,812,856	\$ 21,880,752	\$ 46,693,608

See accompanying Notes to Basic Financial Statements.

(Concluded)

**Bay Area Air Quality Management District**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in**  
**Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2005**

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**Net Change in Fund Balances - Total Governmental Funds** \$ 5,447,725

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

Governmental funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 1,065,658

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (1,392,145)

Gain on the disposal of capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, it is not reported as expenditures in Governmental Funds. 10,712

Proceeds from sale of property provide current financial resources to governmental funds, but sale of property decrease capital assets on government-wide statements. (20,368)

Unearned revenues do not provide current financial resources and therefore are not reported as revenues in the governmental funds. 564,242

**Change in Net Assets of Governmental Activities** \$ 5,675,824

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*A. Description of the Reporting Entity*

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

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

The District also acts as the program administrator for Transportation Fund for Clean Air (TFCA) funds derived from Assembly Bill 434. TFCA funding comes from a \$4 surcharge on motor vehicles registered within the District and a \$2 surcharge on mobile source incentive fund. TFCA funding may only be used to fund eligible projects that reduce motor vehicles 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% of the revenues raised within a particular county to that county's eligible, designated Program Manager. The remaining 60% is for Regional Fund grants and is being allocated to projects on a competitive basis. Projects are evaluated using the District's Board adopted evaluation and scoring criteria. The District may receive reimbursement from TFCA funds, not to exceed 5% of total funds, for administration of the program. TFCA activity is accounted for in the District's Special Revenue Fund.

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

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

*B. Basis of Accounting and Measurement Focus*

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental 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.

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting and Measurement Focus, Continued***

Government-Wide Financial Statements - The District's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the District.

These statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred.

The types of transactions reported as program revenues for the District are reported in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds

The District applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure.

Governmental Fund Financial Statements - Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The District has presented all major funds that met those qualifications pursuant to GASB pronouncements.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*B. Basis of Accounting and Measurement Focus, Continued*

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District, are intergovernmental revenues, interest revenue, certain charges for services, fines, and permits revenues. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the funds balance sheet and revenue is recognized.

The Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

*C. Cash and Investments*

The District pools its available cash for investment purposes. The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Additionally, each fund’s equity in the San Mateo County’s investment pool is treated as cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

*D. Receivables*

During the course of normal operations, the District carries various receivable balances for taxes, interest and services. 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.

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*E. Capital Assets*

The District's assets are capitalized at historical cost or estimated historical cost. District policy has set the capitalization threshold for reporting general capital assets at \$3,500. Donated capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings, grounds & improvements	15-20 years
Equipment	5-7 years

*F. Compensated Absences*

District employees are allowed to accrue no more than 460 hours of vacation as of the end of the fiscal year. In the event of termination, the employees are reimbursed for all accumulated vacation at the time of termination.

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.

There are no restrictions regarding the accumulation of sick leave. On termination, employees are not paid for accumulated sick leave.

*G. Income Taxes*

The District falls under the purview of Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes and no provisions for income taxes have been made in the accompanying basic financial statements.

*H. Interfund Transactions*

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from funds" (i.e., the current portion of interfund loans).

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement.

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*I. Net Assets*

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

*J. Fund Balances - Reserves and Designations*

In the Fund Financial Statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to revision.

*K. Use of Estimates*

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

*L. Implementation of New GASB Pronouncements*

The District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board statements:

- Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3.*

GASB Statement No. 40 updates the custodial credit risk disclosure requirements of Statement No. 3 and establishes more comprehensive disclosure requirements addressing other common risks of deposits and investments of state and local governments, such as credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**2. CASH AND INVESTMENTS**

The following is a summary of pooled cash and investments, including cash and investments with in Revolving Fund at June 30, 2005:

	Government- Wide Statement of Net Assets	
	Governmental Activities	Total
Cash and investments in San Mateo Pooled Fund Investment Program	\$ 73,877,956	\$ 73,877,956
Cash in Revolving Fund	1,200	1,200
<b>Total</b>	<b>\$ 1,200</b>	<b>\$ 1,200</b>

The District is a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the County of San Mateo. The District reports its investment in the County Pool at the fair value amount provided by the County. Included in the County Pool's investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, Collateralized Mortgage Obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

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

**3. RECEIVABLES**

**A. Accounts Receivable**

At June 30, 2005, the District had the following accounts receivable:

<b>General Fund:</b>		
County Apportionments	\$ 858,474	
EPA	1,842,654	
Other receivables	2,010,523	
Total General Fund		\$ 4,711,651
<b>Special Revenue Fund:</b>		
TFCA DMV Fees	5,280,727	
Other receivables	268,217	
Total Special Revenue Fund		5,548,944
<b>Total accounts receivable</b>		<b>\$ 10,260,595</b>



**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**3. RECEIVABLES, Continued**

*B. Interest Receivable*

At June 30, 2005, the District had the following interest receivable:

<b>General Fund:</b>		
San Mateo County Investment Pooled Fund	\$ 169,545	
Total General Fund		\$ 169,545
<b>Special Revenue Fund:</b>		
San Mateo County Investment Pooled Fund	393,728	
Total Special Revenue Fund		393,728
<b>Total interest receivable</b>		<b>\$ 563,273</b>

**4. INTERFUND TRANSACTIONS**

At June 30, 2005, the District had the following due to/from other funds:

	Due From Other Funds	
	General Fund	Total
Due To Other Funds		
Special Revenue Fund	\$ 6,801,783	\$ 6,801,783
Total	<u>\$ 6,801,783</u>	<u>\$ 6,801,783</u>

Due to/from amount represent expenditures made by the District on behalf of TFCA.

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**5. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2005, consisted of the following:

	Balance at 7/1/2004	Additions	Deletions	Balance at 6/30/2005
<b>Governmental Activities:</b>				
<i>Nondepreciable assets:</i>				
Land, 939 Ellis	\$ 214,608	\$ -	\$ -	\$ 214,608
Construction in progress	646,952	274,278	-	921,230
Total nondepreciable assets	<u>861,560</u>	<u>274,278</u>	<u>-</u>	<u>1,135,838</u>
<i>Depreciable assets:</i>				
Building & grounds	6,868,666	234,439	-	7,103,105
Leasehold improvement	2,809,901	-	-	2,809,901
Office equipment	106,500	34,852	-	141,352
Computer & network	2,657,247	174,962	(5,508)	2,826,701
Motorized equipment	1,436,848	238,494	(166,723)	1,508,619
Lab equipment	4,627,771	97,015	-	4,724,786
Communications	200,279	-	-	200,279
General equipment	81,984	11,618	-	93,602
Total depreciable assets	<u>18,789,196</u>	<u>791,380</u>	<u>(172,231)</u>	<u>19,408,345</u>
<i>Accumulated depreciation:</i>				
Building & grounds	4,320,012	310,439	-	4,630,451
Leasehold improvement	2,404,037	159,442	-	2,563,479
Office equipment	87,604	7,286	-	94,890
Computer & network	712,015	251,766	(4,186)	959,595
Motorized equipment	767,125	185,898	(158,389)	794,634
Lab equipment	3,299,480	441,705	-	3,741,185
Communications	105,268	26,073	-	131,341
General equipment	45,798	9,536	-	55,334
Total accumulated depreciation	<u>11,741,339</u>	<u>1,392,145</u>	<u>(162,575)</u>	<u>12,970,909</u>
Total depreciable assets, net	<u>7,047,857</u>	<u>(600,765)</u>	<u>(9,656)</u>	<u>6,437,436</u>
Total capital assets, net	<u>\$ 7,909,417</u>	<u>\$ (326,487)</u>	<u>\$ (9,656)</u>	<u>\$ 7,573,274</u>

Depreciation expenses by program for capital assets for the year ended June 30, 2005 are as follows:

General government	<u>\$ 1,392,145</u>
<b>Total depreciation expense</b>	<u><u>\$ 1,392,145</u></u>

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**6. UNEARNED AND DEFERRED REVENUE**

**A. Government-Wide Financial Statements**

Unearned revenues in Government-Wide Financial Statements represent amounts for which revenues have not been earned. At June 30, 2005, unearned revenue in the Government-Wide Financial Statements were as follows:

Backup Generator Program	\$	953,526
Backup Generator Admin.		132,494
Deferred Revenue - Other		376,352
CARB - Lower Emission Sch		914,771
CARB - Retro		1,382,566
BART		509,002
TFCA DMV Fees		23,391,073
Nox & PM Emissions Reduction Program		1,000,000
Carl Moyer Program		2,637,513
		<hr/>
Total Deferred Revenue	\$	<u>31,297,297</u>

**B. Fund Financial Statements**

At June 30, 2005, the following deferred revenues were recorded in the Fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

<u>General Fund:</u>		
Backup Generator Program	\$	953,526
Backup Generator Admin.		132,494
Tosco Corporation		39,700
Vallero (ULTR)		50,000
Northern Ttst		167,542
SEP - Delta Energy Ctr		40,000
Romic Env Tec		24,000
Shell Oil		243,000
Deferred Revenue - Other		376,352
		<hr/>
Subtotal General Fund	\$	2,026,614
 <u>Special Revenue Fund:</u>		
CARB - Lower Emission Sch		914,771
CARB - Retro		1,382,566
BART		509,002
TFCA DMV Fees		23,391,073
Nox & PM Emissions Reduction Program		1,000,000
Carl Moyer Program		2,637,513
		<hr/>
Subtotal Special Revenue Fund		29,834,925
		<hr/>
Total Deferred Revenue	\$	<u>31,861,539</u>

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**7. LEASES**

**Operating leases**

Commitments under non-cancelable operating lease agreements for air -monitoring stations and office equipment provide for minimum annual rental payments as follows:

<u>Year ended June 30:</u>	
2006	\$ 216,449
2007	178,133
2008	141,334
2009	119,559
2010	104,804
Thereafter	<u>306,187</u>
Total	<u>\$ 1,066,466</u>

Air-monitoring station leases are renewable with minor escalations.

Rental expense for the cancelable lease agreements for the year ended June 30, 2005 was \$94,002

**8. 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 based on amounts actually collected by the counties, which are calculated in accordance with Assembly Bill Number 8.

**9. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On July 1, 1999, the District contracted with Robert F. Driver Company, Inc. as the broker for property and general liability insurance coverage. The District pays an annual premium to Robert F. Driver Associates for its general insurance coverage. The District continues to carry commercial insurance for all other risks of loss including workers' compensation and employee health and accident insurance. There have been no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the District's insurance coverage in any of the past three fiscal years.

The following is a summary of the District's insurance coverage and deductibles as of June 30, 2005:

<u>Coverage</u>	<u>Deductible</u>	<u>Limits</u>
General Liability	\$1,000	\$ 10,000,000
Property	1,000	5,000,000
Property Earthquake	5% per occurrence	50,000,000
Property Flood	2% per occurrence with a minimum of \$50,000	50,000,000
Employment Practice Liability	10,000	2,000,000
Workers' Compensation	300,000	Statutory
All Risk Property ( Other than earthquake Subject to sub-limit)	1,000	1,000,000,000

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**10. COMPENSATED ABSENCES**

Regular full-time employees accumulate vacation time. All vacation leave time is accrued when incurred in the government-wide financial statements and the government fund statements. The balance of compensated absences at June 30, 2005 is \$2,729,960.

	Balance at 7/1/2004	Additions	Deletions	Balance at 6/30/2005	Due Within One Year	Due In More Than One Year
Compensated absences	\$ 2,475,537	\$ 388,802	\$ (134,379)	\$ 2,729,960	\$ 3,392	\$ 2,726,568
Total compensated absences	<u>\$ 2,475,537</u>	<u>\$ 388,802</u>	<u>\$ (134,379)</u>	<u>\$ 2,729,960</u>	<u>\$ 3,392</u>	<u>\$ 2,726,568</u>

**11. CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT PLAN (PERS)**

*Plan Description* - The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple employer public employee retirement system defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute, as legislatively amended, within the Public Employees Retirement Law. Copies of the CalPERS annual financial report may be obtained from their executive Office - 400 P Street, Sacramento, CA 95814

*Funding Policy* - Represented participants are required to contribute 7.00% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. This amounted to \$1,421,046 for the year ended June 30, 2005. The District is required to contribute at an actuarially determined rate; the current rate is 0% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

*Annual Pension Costs* - For 2005, the District's annual pension cost of \$0 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that range from 3.75% to 14.20% depending on age, service, and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2002 was 20 years for prior and current service unfunded liability.

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**11. CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT PLAN (PERS), Continued**

**THREE-YEAR TREND INFORMATION FOR PERS**

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	\$ 2,205,628	100%	\$ -
6/30/2004	1,277,007	100%	-
6/30/2005	-	100%	-

**12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

The District pays medical, dental, vision and life insurance premiums for participating retirees on the pay-as-you-go basis. Benefits are provided for the participant's life time and with an election of certain options may continue to be paid for the life time of a survivor of the participant. The medical insurance plan is administered by CalPERS and was initially contracted with them in November 1978. The maximum medical insurance premium (including dental, vision, and life) that the District is obligated to provide annually as a benefit to retirees is \$1,017 for management employees, \$967 for confidential employees and \$890 for represented employees.

During fiscal year ended June 30, 2005, there were 125 participants in the health insurance plan, 99 participants in the dental plan, 67 participants in the vision plan and 55 participants in the life insurance plan. The District paid premiums for the participating retirees during the fiscal year ended June 30, 2005 in the amount of \$710,149 for the health insurance plan, \$20,191 for the dental plan, \$9,687 for the vision plan and \$24,584 for the life insurance plan.

**13. CONTINGENT LIABILITIES**

Receipts from Environmental Protection Agency and other similar programs are subject to audit by representatives of Federal and State agencies to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. District management believes that no significant liabilities may result.

**14. LITIGATION**

The District is the defendant in various lawsuits arising principally from the application of its regulation in the normal course of operations. The District contends that they will pursue a vigorous defense against each of the pending litigation, although the likelihood of potential loss is very small. It is management's opinion that the outcome of these lawsuits will not have a material adverse effect on the accompanying basic financial statements and accordingly, no provision for losses has been recorded.

**Bay Area Air Quality Management District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

**15. PRIOR PERIOD ADJUSTMENT**

*A. Government-Wide Financial Statements*

During fiscal year 2005, the District recorded the following prior period adjustments to adjust the net assets to reflect prior year payroll accrual which was never accrued.

	Net Assets as Previously Reported	Accounting Restatements	Net Assets as Restated
Government-Wide Activities:			
Net assets	\$ 50,404,826	\$ (1,249,526)	\$ 49,155,300
<b>Total government-wide activities</b>	<u>\$ 50,404,826</u>	<u>\$ (1,249,526)</u>	<u>\$ 49,155,300</u>

*B. Fund Financial Statements*

During fiscal year 2005, the District identified certain accounting restatements in the fund financial statements to record prior year payroll accrual which was never accrued. Accordingly, the District's fund balances as of July 1, 2004 have been restated as follows:

	Fund Balance as Previously Reported	Accounting Restatements	Fund Balance as Restated
General Fund	\$ 22,128,660	\$ (1,249,526)	\$ 20,879,134
Special Revenue Fund	20,366,749	-	20,366,749
<b>Total</b>	<u>\$ 42,495,409</u>	<u>\$ (1,249,526)</u>	<u>\$ 41,245,883</u>

**16. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

During fiscal year ended June 30, 2005, expenditures exceeded appropriations in the Special Revenue Fund by \$20,177,280. Out of this amount, \$18,459,698 is due to the fact that the District does not budget for program distribution activity within the Special Revenue Fund and therefore program distribution expenditures appear as an unfavorable variance within that fund.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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# Bay Area Air Quality Management District

## Required Supplementary Information

### For the year ended June 30, 2005

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#### 1. BUDGETARY PRINCIPLES

Through the budget, the Board of Directors sets the direction of the Bay Area Air Quality Management 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 serves 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
- b) Budgets are adopted on a basis that is consistent with Generally Accepted Accounting Principles (GAAP). Annual appropriated budgets are adopted for the General and Special Revenue funds.
- c) Supplementary budgetary revenue and expenditure appropriations were adopted by the Board of Directors during the fiscal year. These supplemental appropriations have been included in the Budgeted Amounts/Final column of the General Fund Budgetary Comparison Schedule.

#### *Encumbrances*

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

**Bay Area Air Quality Management District**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2005**

**1. BUDGETARY PRINCIPLES, Continued**

*Budgetary Comparison Schedule, General Fund*

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES:</b>				
<b>Program revenues:</b>				
Redevelopment	\$ -	\$ -	\$ 52,776	\$ 52,776
Permit fees	16,259,800	16,259,800	16,146,867	(112,933)
Title V permit fees	1,588,700	1,588,700	1,282,621	(306,079)
State subvention	1,863,870	1,863,870	1,730,915	(132,955)
Spare the air grants	1,228,400	1,228,400	1,779,643	551,243
Calpine - Los Esteros	-	-	19,700	19,700
Federal grant - EPA	2,527,300	2,527,300	3,112,271	584,971
Penalties and variance fees	1,750,000	2,800,000	3,090,636	290,636
Asbestos	1,300,200	1,300,200	1,641,880	341,680
AB 2588 income	640,000	640,000	541,759	(98,241)
Hearing board	37,000	37,000	27,554	(9,446)
District Services	10,000	10,000	5,589	(4,411)
Interest	490,000	490,000	559,635	69,635
Other grants	-	-	702,731	702,731
Miscellaneous	175,000	425,000	454,598	29,598
Transfer in:				
Special Environmental Projects	-	-	200,438	200,438
AB 434 others	618,725	618,725	676,624	57,899
Reserved for production system	1,600,000	1,600,000	-	(1,600,000)
Reserve for building & facilities	-	295,800	-	(295,800)
Reserve for contingency	-	337,053	-	(337,053)
Reserve for PERS super funding	486,637	486,637	-	(486,637)
Total program revenues	30,575,632	32,508,485	32,026,237	(482,248)
<b>General revenues:</b>				
County apportionment:				
Alameda	2,895,600	2,722,121	3,137,450	415,329
Contra Costa	1,947,500	1,830,823	1,634,676	(196,147)
Marin	773,800	727,441	828,776	101,335
Napa	476,600	448,046	310,649	(137,397)
San Francisco	2,101,200	1,975,315	2,032,467	57,152
San Mateo	2,408,700	2,264,392	2,047,914	(216,478)
Santa Clara	4,120,775	3,873,391	3,942,789	69,398
Solano	412,000	387,317	446,251	58,934
Sonoma	779,000	732,329	821,133	88,804
Total general revenues	15,915,175	14,961,175	15,202,105	240,930
<b>Total revenues</b>	<b>46,490,807</b>	<b>47,469,660</b>	<b>47,228,342</b>	<b>(241,318)</b>

(Continued)

**Bay Area Air Quality Management District**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2005**

**1. BUDGETARY PRINCIPLES, Continued**

*Budgetary Comparison Schedule, General Fund, Continued*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
Current:				
Program distributions	-	-	969,858	(969,858)
Executive office	2,898,211	2,872,311	4,866,976	(1,994,665)
Administrative services	2,831,624	2,839,124	3,761,941	(922,817)
Legal services	1,385,397	1,362,697	1,539,127	(176,430)
Public information and outreach	2,242,919	2,504,019	3,178,831	(674,812)
Compliance and enforcement	10,650,611	10,531,590	8,905,926	1,625,664
Engineering	8,454,057	8,431,157	7,100,668	1,330,489
Planning	4,710,830	4,535,530	3,237,313	1,298,217
Information systems	2,826,009	2,826,009	2,785,532	40,477
Technical services	6,633,564	6,605,064	5,595,167	1,009,897
Total current expenditure	42,633,222	42,507,501	41,941,339	566,162
Capital outlay	4,962,159	4,962,159	1,373,649	3,588,510
<b>Total expenditures</b>	<b>47,595,381</b>	<b>47,469,660</b>	<b>43,314,988</b>	<b>4,154,672</b>
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	(1,104,574)	-	3,913,354	3,913,354
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets	-	-	20,368	(20,368)
<b>Total financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>20,368</b>	<b>(20,368)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>\$ (1,104,574)</b>	<b>\$ -</b>	<b>3,933,722</b>	<b>\$ 3,933,722</b>
<b>FUND BALANCES:</b>				
Beginning of year, as restated (Note 15)			20,879,134	
End of year			<u>\$ 24,812,856</u>	

(Concluded)

**Bay Area Air Quality Management District**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2005**

**1. BUDGETARY PRINCIPLES, Continued**

*Budgetary Comparison Schedule, Special Revenue Fund*

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>REVENUES:</b>				
TFCA DMV fees	\$ -	\$ -	\$ 21,951,613	\$ 21,951,613
Carl Moyer program	-	-	1,025,320	1,025,320
Lower emission school bus program	-	-	2,416,640	2,416,640
Interest	-	-	1,514,003	1,514,003
Bart revenue	-	-	270,998	270,998
AB 434 others	6,163,915	6,163,915	676,624	(5,487,291)
<b>Total revenues</b>	<b>6,163,915</b>	<b>6,163,915</b>	<b>27,855,198</b>	<b>21,691,283</b>
<b>EXPENDITURES:</b>				
Program distributions	-	-	18,459,698	(18,459,698)
Smoking vehicle	692,982	692,982	861,489	(168,507)
Intermittent control	729,643	729,643	1,105,659	(376,016)
Transportation fund for clean air administration	974,244	974,244	1,110,997	(136,753)
Vehicle buy-back	3,767,046	3,767,046	4,803,352	(1,036,306)
<b>Total expenditures</b>	<b>6,163,915</b>	<b>6,163,915</b>	<b>26,341,195</b>	<b>(20,177,280)</b>
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>1,514,003</b>	<b>\$ 1,514,003</b>
<b>FUND BALANCES:</b>				
Beginning of year			20,366,749	
End of year			\$ 21,880,752	

**Bay Area Air Quality Management District**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2005**

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**CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)**

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Actuarial Assets Over (Under) Accrued Liability	Funded Ratio	Covered Payroll	Actuarial Assets Over (Under) Liability as Percentage of Covered Payroll
6/30/2002	\$ 109,763,884	\$ 91,736,970	\$ 18,026,914	119.7%	\$ 19,913,289	90.5%
6/30/2003	109,712,995	113,431,463	(3,718,468)	96.7%	23,705,964	(15.7%)
6/30/2004	114,518,167	122,405,617	(7,887,450)	93.6%	23,918,031	(33.0%)

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**SINGLE AUDIT REPORT**

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of the Bay Area Air Quality Management District (District) as of and for the year ended June 30, 2005, and have issued our report thereon dated February 17, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Oakland, California  
April 27, 2006

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the Bay Area Air Quality Management District (District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of the auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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To the Board of Directors  
of the Bay Area Air Quality Management District  
San Francisco, California  
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

**Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the District as of and for the year ended June 30, 2005, and have issued our report thereon dated February 17, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole. However, the results of our auditing procedures disclosed questioned costs, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Capricci & Carson*

Oakland, California  
April 27, 2006

**Bay Area Air Quality Management District  
 Single Audit Report  
 Schedule of Expenditures of Federal Awards  
 For the year ended June 30, 2005**

Federal Grantor/Pass-Through Grantor Program Title	*	Federal CFDA Number	Contract Number	Federal Expenditures
<b>U.S. Environmental Protection Agency:</b>				
FY-05 Air Pollution Control Program	*	66.001	A00905605	\$ 1,500,602
PM 2.5 Monitoring Network	*	66.034	PM97982401	56,703
PM 2.5 Monitoring Network	*	66.034	PM97993201	233,750
CAA Special Purpose Activities - Toxics Monitoring, San Jose, CA	*	66.034	XA97982301	122,000
				<u>412,453</u>
Biowatch - Homeland Security	*	66.500	BW97963201	408,012
				<u>408,012</u>
<i>Total Environmental Protection Agency</i>				<u>2,321,067</u>
<b>Total Expenditures of Federal Awards</b>				<u><u>\$ 2,321,067</u></u>

\* Denotes Major Programs

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**Bay Area Air Quality Management District**  
**Single Audit Report**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2005**

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**1. REPORTING ENTITY**

**A. Reporting Entity**

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

Funds received under the various grant programs have been recorded within general fund of the District. The District utilizes the modified accrual basis of accounting for the general fund. The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared accordingly.

**B. Schedule of Expenditures of Federal Awards**

The accompanying Schedule presents the activity of all Federal financial assistance programs of the District. Federal financial assistance received directly from Federal agencies as well as Federal financial assistance passed through the State of California are included in the Schedule.

The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the District.



**Bay Area Air Quality Management District**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2005**

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**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Bay Area Air Quality Management District (District).
2. No reportable conditions relating to the audit of the financial statements are reported in the basic financial statements.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major Federal award programs is reported in the basic financial statements.
5. The auditors' report on compliance for the major Federal award programs for the District expresses an unqualified opinion.
6. Audit findings relative to the major Federal award programs for the District are reported in Part C of this Schedule below.
7. The programs tested as major programs include:

<u>Major Programs</u>	<u>Expenditures</u>
FY-05 Air Pollution Control Program	\$ 1,500,602
Biowatch - Homeland Security	408,012
PM 2.5 Monitoring Network (10/31/2003 to 10/31/2004)	56,703
PM 2.5 Monitoring Network (11/1/2004 to 10/31/2008)	233,750
CAA Special Purpose Activities - Toxic Monitoring, San Jose, CA	122,000
<b>Total Major Program Expenditures</b>	<b>\$ 2,321,067</b>
<b>Percent of Total Federal Award Expenditures</b>	<b>100.00%</b>

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The District was determined to be a high risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

No financial statement findings were noted.

**Bay Area Air Quality Management District  
Single Audit Report  
Schedule of Findings and Questioned Costs, Continued  
For the year ended June 30, 2005**

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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

2005-01

***Criteria:***

In accordance with OMB Circular A-133, grantees should submit standard financial report forms or other performance and special reporting forms as required by Federal awarding agency.

***Condition:***

The District is required to complete and submit to the Grants Management Office, PMD-7, a MBE/WBE Utilization Report, within 30 days after the end of the Federal fiscal year, i.e., by October 30 of each calendar year. The District did not submit the report for Federal fiscal year 2005.

***Questioned Costs:***

Not applicable.

***Context and Effect:***

Because of the failure to submit a MBE/WBE Utilization Report, we were not able to determine if the District is in compliance with EPA's Program for Utilization of Small, Minority and Women's Business Enterprises in procurement under Federal assistance programs.

***Recommendation:***

We recommend that the District establishes and then monitors for compliance its policies and procedures covering the preparation and submission of MBE/WBE Utilization Report on a timely basis.

***District Response:***

The District concurs. The District is now preparing the federal fiscal year 2005 Utilization reports. The District has also incorporated this reporting requirement into its procedures.

**Bay Area Air Quality Management District  
Single Audit Report  
Schedule of Findings and Questioned Costs, Continued  
For the year ended June 30, 2005**

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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT,  
Continued**

**2005-02**

U.S. ENVIRONMENTAL PROTECTION AGENCY  
CAA Special Purpose Activities: Toxic Monitoring, San Jose, CA (CFDA Number 66.034) - Allowable  
Costs and Cost Principles

***Criteria:***

In accordance with OMB Circular A-133, internal controls should be in place to provide reasonable assurance that an individual's time is supported by valid time sheets or supporting schedules.

***Condition:***

Payroll is being allocated using an estimate amount, and without adequate support for amounts being allocated.

***Questioned Costs:***

For the fiscal year ended June 30, 2005, the payroll expense for this grant is \$78,472.

***Context and Effect:***

Because of the failure to maintain time sheets which support the amount charged to the grant, payroll expenses may be incorrectly charged.

***Recommendation:***

We recommend that the District establishes and then monitors for compliance its policies and procedures covering the preparation and review of time sheets. This will ensure that time charged to programs is properly supported by functional time sheets and these time sheets in total support the payroll expense charged to the grant.

***District Response:***

The District concurs. District employees who work on grant funded programs use billing codes to charge their time to grants and the District addressed this issue proactively in May 2005 when it created a special billing code to track payroll costs associated with the NATTS grant. It is now District policy to assign a billing code to all grants for payroll tracking purposes.

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**TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM**

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**REPORT ON COMPLIANCE WITH APPLICABLE PROVISIONS OF  
TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM**

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

We have audited the basic financial statements of the Bay Area Air Quality Management District (District) as of and for the year ended June 30, 2005, and have issued our report thereon dated February 17, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the applicable provisions and Assembly Bill 434 (AB434) [Health and Safety Code Sections 44220 through 44242] including the use of money for the reduction of emission from motor vehicles; the use of an independent auditor; the adoption of appropriate resolutions as specified in the Health and Safety Code Sections 44223, 44225, and 44241, and the not to exceed cap of 5% on administrative costs for the year ended June 30, 2005.

Based on the audit, we found that, for the items tested, the Bay Area Air Quality Management District complied with the applicable provisions of AB434 as referred to above. Further, based on our examination, for the items not tested, nothing came to our attention to indicate that the District had not complied with the applicable provisions of AB434. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with Assembly Bill 434 and which are described in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Oakland, California  
February 17, 2006

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**Bay Area Air Quality Management District  
Transportation Fund for Clean Air (TFCA) Program  
Schedule of Expenditures  
For the year ended June 30, 2005**

<u>Expenditures</u>	<u>Program Distribution</u>	<u>Intermittent Control</u>	<u>Smoking Vehicle</u>	<u>TFCA Administration</u>	<u>Vehicle Buy Back</u>	<u>Total</u>
Salaries and Benefits	\$ -	\$ 295,562	\$ 330,519	\$ 706,223	\$ 108,714	\$ 1,441,018
Services and Supplies	-	810,096	530,970	404,774	4,694,637	6,440,477
Program distributions	18,459,698	-	-	-	-	18,459,698
Total	<u>\$ 18,459,698</u>	<u>\$ 1,105,658</u>	<u>\$ 861,489</u>	<u>\$ 1,110,997</u>	<u>\$ 4,803,351</u>	<u>\$ 26,341,193</u>

See accompanying Schedule of Findings and Questioned Costs.

**Bay Area Air Quality Management District  
Transportation Fund for Clean Air (TFCA) Program  
Schedule of Findings and Questioned Costs  
For the year ended June 30, 2005**

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2005-01

***Criteria:***

In accordance with AB434, the District is required, at least once every two years, to undertake an audit of each program or project funded by TFCA, regardless of whether the project is completed or not. The audit shall be conducted by an independent audit firm selected by the District.

***Condition:***

The District past practice was to undertake an audit on the completed projects only, resulting some programs and projects were not being audited at least once every two years.

***Questioned Costs:***

Not applicable.

***Context and Effect:***

Because of the failure to undertake an audit in a timely manner, the District may not aware if the programs or projects funded by TFCA program were spent in accordance with AB434, and therefore, the District may not take appropriate corrective action on the noncompliance; in a timely manner.

***Recommendation:***

We recommend that the District hire an independent firm to perform an audit of all projects that were not audited in the past to ensure that the District is in compliance with all the requirements stated in AB434.

***District Response:***

The District concurs. As a point of clarification, the focus of TFCA audits was on closed projects for two fiscal years only (2002-03 and 2003-04). TFCA audits were in compliance for all other fiscal years.

The District has issued a formal Request for Proposal (RFP) for TFCA Audit services. The scope of this audit is for all TFCA funded projects that have not been audited since June 30, 2004.. This will bring the District into compliance with AB434.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

Memorandum

To: Chairperson Daly and Members  
of the Budget and Finance Committee

From: Jack Broadbent  
Executive Officer/APCO

Date: May 18, 2006

Re: District Response to Audit Findings for Fiscal Year 2004/2005

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION:

District staff will present the response to the auditor's findings.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

None.

Respectfully submitted,

Jack P. Broadbent  
Executive Officer/APCO

Prepared by: Jeff McKay