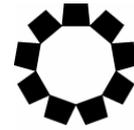


# ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



ABAG

## AGENDA

### **FINANCE AND PERSONNEL COMMITTEE**

Thursday, December 4, 2014, 5:00 PM

Location:

Joseph P. Bort MetroCenter  
Association of Bay Area Governments  
101 8<sup>th</sup> Street, Conference Room B  
Oakland, California

*The ABAG Finance and Personnel Committee may take action on any item on this agenda.*

*Agenda and attachments available at [abag.ca.gov](http://abag.ca.gov)*

*For information, contact Herbert Pike, Finance Director, at (510) 464-7902.*

#### **1. CALL TO ORDER**

#### **2. PUBLIC COMMENT**

Information.

#### **3. APPROVAL OF MINUTES OF SEPTEMBER 18, 2014.**

ACTION.

*Minutes of September 18, 2014 meeting attached.*

#### **4. PRESENTATION AND REVIEW OF FINANCIAL REPORT FOR SEPTEMBER 2014.**

Information/ACTION.

*Financial Report for September 2014 is attached.*

**ABAG Finance and Personnel Committee**

December 4, 2014

2

**5. REPORT ON DIVERSITY AND BUSINESS OPPORTUNITY--FY 2013/14**

Information/Action

Attachment: Diversity Report

**6. AUDITED FINANCIAL REPORTS FOR ABAG-- JUNE 30, 2014**

Information/ACTION

Audited Financial Reports are not yet completed, but are expected to be available at least a week before the meeting. They will be e-mailed prior to the meeting/hard copies will be available at the meeting.

**7. CLOSED SESSION**

**A. Conference with Labor Negotiators**

Agency designated representatives: Brian Kirking, Brad Paul and Herb Pike.

Employee organization: SEIU Local 1021.

**B. Public Employee Performance Evaluation**

Title: Executive Director

**8. ADJOURNMENT**

The next meeting of the Finance and Personnel Committee will be on Thursday, January 15, 2015.

Submitted:

Herbert Pike, Finance Director

Date: November 18, 2014

## **ABAG FINANCE AND PERSONNEL COMMITTEE**

### **Summary Minutes**

**September 18, 2014**

#### **Members Present**

Mayor Bill Harrison  
Supervisor Karen Mitchoff  
Councilmember Desley Brooks  
Councilmember Ronit Bryant  
Supervisor Scott Haggerty  
Councilmember Julie Pierce  
Supervisor Mark Luce  
Supervisor David Rabbitt

#### **Jurisdiction**

City of Fremont  
County of Contra Costa  
City of Oakland  
City of Mountain View  
County of Alameda  
City of Clayton  
County of Napa  
County of Sonoma

#### **Members Absent**

Supervisor Dave Pine  
Supervisor David Cortese  
Supervisor John Gioia

County of San Mateo  
County of Santa Clara  
County of Contra Costa

#### **Officers and Staff Present**

Ezra Rapport, Executive Director  
Bradford Paul, Asst. Exec. Director  
Kenneth Moy, Legal Counsel  
Brian Kirking, HR & IT Director  
Herbert Pike, Finance Director  
Susan Hsieh, Asst. Finance Director

#### **Guests**

Councilmember Pat Eklund  
Ken Bukowski, Videographer

City of Novato

1. The meeting was called to order by Mayor Harrison, Committee Chair, at 5:00 pm.
2. Public Comments—Mr. Bukowski announced he has a new website where videos of ABAG Committee meetings can be view— Regional-Video.com
3. Summary Minutes of the July 17, 2014 meeting were approved.  
/M/Haggerty/S/Brooks/C/approved unanimously.

4. Mr. Pike presented the financial reports for June (Fiscal Year-end) and July 2014.  
/M/Mitchoff/S/Bryant/C/ acceptance of the report unanimously.
  
5. Mr. Pike presented a Resolution Fixing the ABAG Contribution under the Public Employees' Medical and Hospital Act for Employer Code 1642. This action, to take effect on January 1, 2015, had already been approved as Resolution No. 14-14 approved in July, but is now being presented in a new format mandated by CalPERS. The new Resolution number is 16-14.  
/M/Brooks/S/Rabbitt/C/unanimously approved for Executive Board approval.
  
6. Mr. Rapport presented the proposed plan by which ABAG plans to eliminate the structural indirect overhead deficit necessitated by the elimination of four positions in ABAG PLAN operations, thereby reducing overhead recovery to cover indirect costs. Presentation was for information only.
  
7. There was no reportable action from Closed Session.
  
8. Meeting was adjourned at approximately 5:45pm.

Submitted: Herbert Pike, Finance Director

Date: September 30, 2014

TO: Finance and Personnel Committee

DT: October 23, 2014

FM: Herbert Pike, Finance Director

Re: Financial Reports  
-- September 2014

The following are highlights of the financial reports for September 2014.

### **Overall Summary**

ABAG recognized a surplus of \$266 thousand for the month ended September 2014. The surplus is primarily attributed to high billable hours in September. Budgeted revenues and expenses were increased to reflect the new \$12.8 million BayREN project with PG&E/CPUC. The contract will be signed in December 2014. Please refer to the **Table of Financial Report Data Elements** for actual and adopted numbers.

### **Cash on Hand**

The cash balance was \$6.8 million at the end of September including \$2.2 million invested with the Local Agency Investment Fund (LAIF). There was a decrease of \$819 thousand from the prior month and a decrease of \$671 thousand from the prior year. Figure 1 depicts the actual cash balances for FY 14 and FY 15 and the projected balances for the remaining year. The high cash balance is primarily attributed to grant advances for SFEP projects and the BayREN/Energy project. ABAG expects subrecipients for the BayREN project to draw down the funds for incentive rebates by the end of December 2014. These funds are for single and multifamily energy retrofits. The incentive rebates will benefit the Bay Area residents in the nine counties. Unspent funds of approximately \$5 million are recorded as unearned revenues. The cash balance is projected to be about \$6 million at the end of the fiscal year.

### **Receivables**

Receivables from grant and service programs amounted to \$5.38 million at the end of September comprised primarily of \$2.29 million in grants receivables and \$2.72 million in unbilled receivables. The total decreased by \$118 thousand from the prior month and increased by \$526 thousand from the prior year. The fluctuations are reasonable as changes are expected from one period to another (depending on timing of expenditures). Staff will continue to send out invoices in a timely manner and follow up on past due invoices to reduce the average age of outstanding receivables. Figure 2 depicts the actual receivable balances for FY 14 and FY 15 and the projected balances for the remaining year. Total receivable is expected to be approximately \$5.5 million at the end of the year.

### **Revenues and Expenses**

Revenues exceeded expenses by \$266 thousand as of September 30. Total revenues amounted to \$6.34 million, or 23 percent, of the adjusted budget revenues of \$27.83 million. Total expenses amounted to \$6.07 million, or 22 percent, of the adjusted budget expenses of \$27.78 million. Revenues and expenses are 2 percent and 3 percent below the 25 percent budgeted. Budgeted

**Item 4**

revenues and expenses were adjusted to include the projected revenues/expenses associated with the new BayREN project mentioned above. A portion of the funds will be spent in this fiscal year. ABAG operations are expected to yield a net surplus of \$50 thousand as of June 30, 2015. Figure 3 presents a comparison of current month, year-to-date actual and budgeted revenues and expenses. Figure 4 shows year-to-date revenues by major category, and Figure 5 shows year-to-date expenses by major category.

### **Net Position/Fund Equity**

Total fund equity was \$3.15 million as of September 30 including \$2.44 million in general fund equity and \$710 thousand in restricted fund equity. The fund equity increased by \$257 thousand compared to the prior month. The restricted fund equity consists of capital, self-insurance, building maintenance and reserves. A surplus is projected at year end and will be reserved for contingency to reflect the commitment to increase restricted reserves by \$50 thousand per year. Figure 6 presents actual and adopted general, restricted, and total fund equities for the current fiscal year.

### **Indirect Overhead Rate**

The Agency's actual indirect cost (overhead) rate for the first quarter of the fiscal year was 40.45 percent, or 4.50 percent below the budget estimate of 44.95 percent. This means that for the first quarter, ABAG has charged more to grants for overhead expense than what was actually spent. The actual realized overhead rate is expected to approach the budgeted rate towards the end of the fiscal year. Figure 7 shows a comparison between the actual indirect cost rate and the approved rate.

### **Financial Information by Program**

The **Report by Program of Net Surplus/(Deficit)** is included after the charts. This report presents revenue and expense information by program. It provides an overview of budgeted and year-to-date revenue and expense data for major programs such as the Planning Services, San Francisco Estuary Partnership, Bay Trail and POWER/Energy.

**Association of Bay Area Governments**  
**Table of Financial Report Data Elements**  
(thousands of dollars)

For the Month Ended September 2014

Projected percentage of budget is 25%.

Description	Adjusted Budget	Year-To-Date Actual	% of Budget	Budget Balance
<b>ASSETS</b>				
Cash	6,000	6,801	113%	(801)
Receivables	5,500	5,377	98%	123
<b>REVENUES</b>				
Membership Dues	1,821	455	25%	1,366
Grants	20,696	4,525	22%	16,171
Charges for Services and Other	5,313	1,355	26%	3,958
<b>Total Revenues</b>	<b>27,830</b>	<b>6,335</b>	<b>23%</b>	<b>21,495</b>
<b>EXPENSES</b>				
Salaries and Benefits	11,451	2,863	25%	8,588
Pass-through and Consultant Expenses	14,000	2,833	20%	11,167
Other Expenses	2,329	373	16%	1,956
<b>Total Expenses</b>	<b>27,780</b>	<b>6,069</b>	<b>22%</b>	<b>21,711</b>
Change in Net Position	50	266	532%	(216)
Beginning Net Position	2,887	2,887	100%	-
<b>Ending Net Position</b>	<b>2,937</b>	<b>3,153</b>	<b>107%</b>	<b>(216)</b>
<b>NET POSITION BREAKDOWNS</b>				
Unrestricted	2,177	2,443	112%	(266)
Restricted	760	710	93%	50
<b>Total Net Position</b>	<b>2,937</b>	<b>3,153</b>	<b>107%</b>	<b>(216)</b>
<b>INDIRECT OVERHEAD</b>				
Overhead Rate	44.95%	40.45%		

Item 4

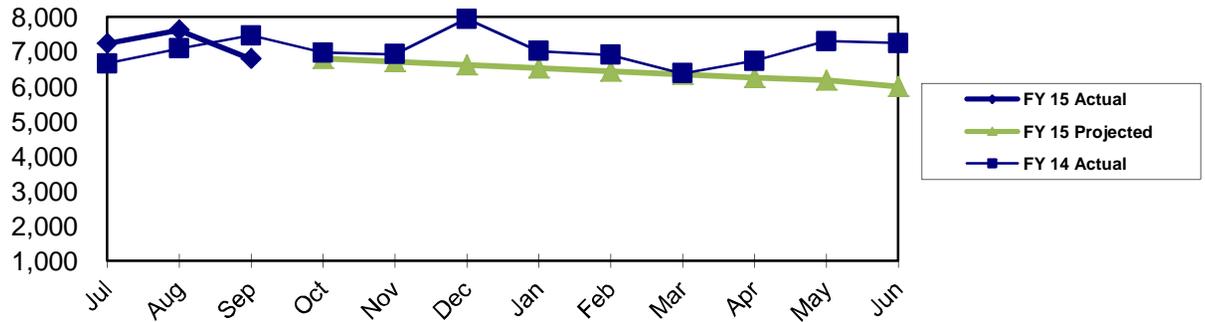
## ABAG Financial Indices

### Cash on Hand FY 14-FY 15 (\$'000)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 15 Actual	7,243	7,620	6,801									
FY 15 Projected				6,800	6,711	6,622	6,533	6,444	6,355	6,266	6,177	6,000
FY 14 Actual	6,667	7,091	7,472	6,974	6,933	7,943	7,017	6,907	6,385	6,741	7,306	7,248

**Represents** the sum total of cash deposited at our bank and the Local Agency Investment Fund. This chart shows fluctuation patterns of cash on hand for the current and prior fiscal years.

Figure 1--Cash on Hand--FY 14 and FY 15 (\$'000)

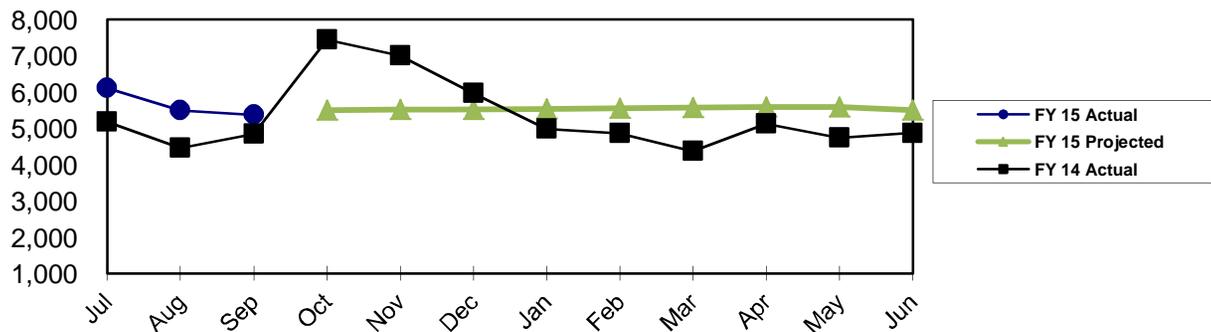


### Accounts Receivable FY 14-FY 15 (\$'000)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 15 Actual	6,116	5,495	5,377									
FY 15 Projected				5,500	5,514	5,527	5,541	5,555	5,568	5,582	5,596	5,500
FY 14 Actual	5,182	4,463	4,851	7,445	7,006	5,973	4,985	4,862	4,379	5,132	4,742	4,874

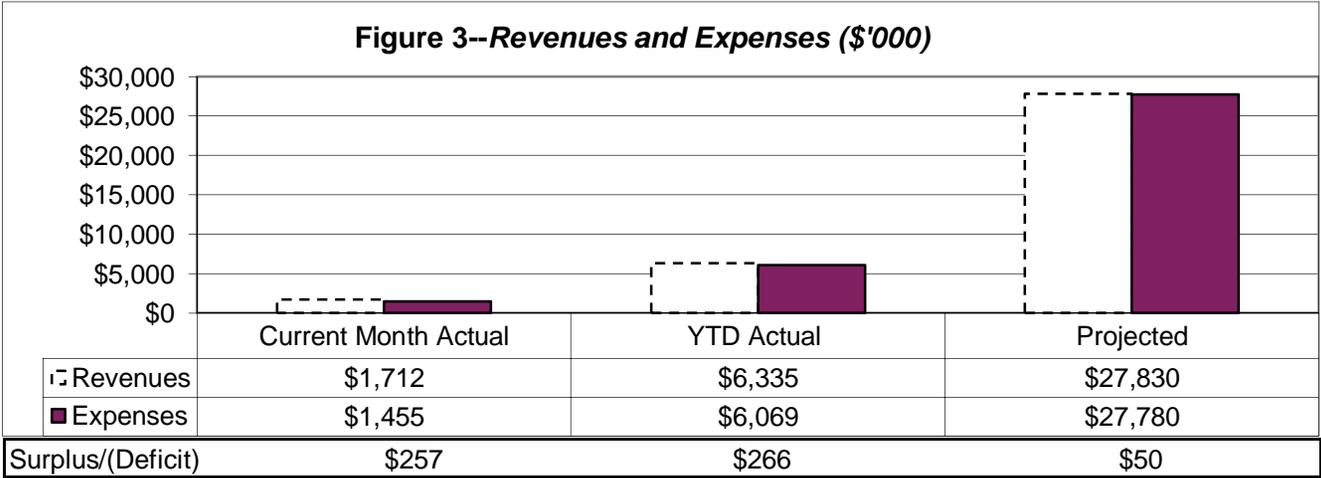
**Accounts** receivable include receivables generated by grants and service programs over two fiscal years. Reflects the reasonableness of our receivable levels; usually have about six weeks' worth of annual revenues in receivables.

Figure 2--Accounts Receivable--FY 14 and FY 15 (\$'000)



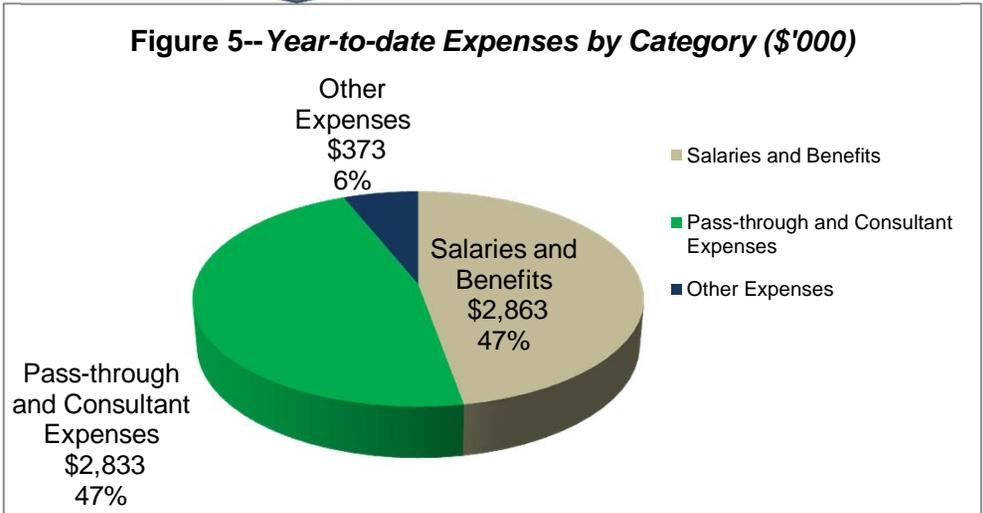
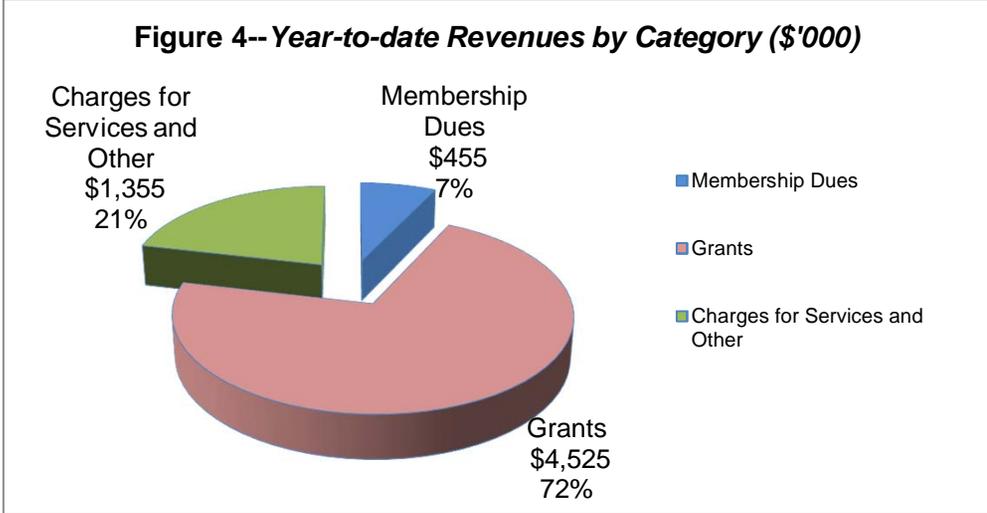
### ABAG Financial Indices

**Presents** a comparison of current month actual, year-to-date actual, and adopted/projected revenues and expenses.



**Shows** year-to-date revenues by major category including membership dues, grants, and charges for services and other.

**Shows** year-to-date expenses by major category including salaries and benefits, pass-through and consultant expenses, and other expenses.



## ABAG Financial Indices

**Presents** actual and adopted/projected general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building improvement interest, building maintenance, self-insurance, capital and contingency reserve. These restricted equities represent the Association's equities set aside for specific purposes. Total equity is the sum total of general and restricted equities.

**Shows** a comparison between the actual indirect cost rate and the budgeted/approved rate. The approved indirect cost rate is computed by dividing total estimated overhead expenses by total projected direct labor cost for a fiscal year. This rate is used as a standard overhead cost rate to allocate indirect costs to all projects. This process is performed in accordance with an indirect cost plan, which is prepared annually in accordance with federal guidelines.

Figure 6--Net Position/Fund Equity (\$'000)

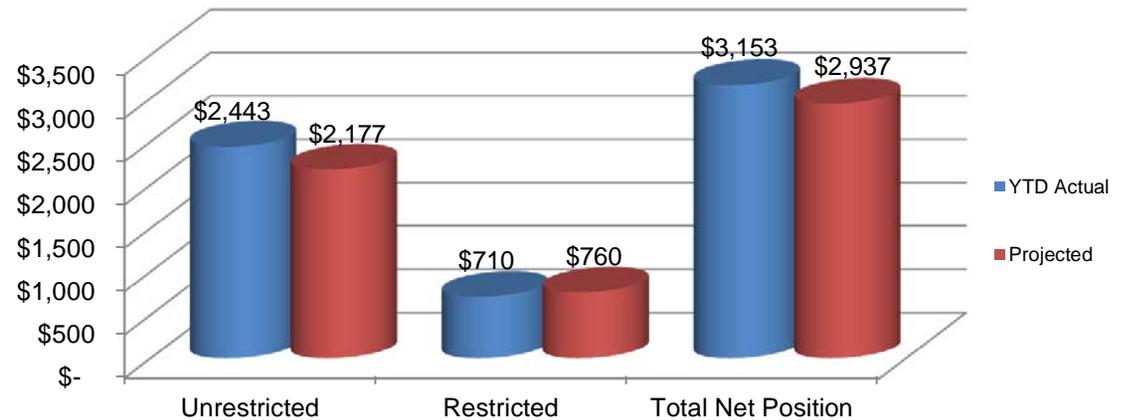
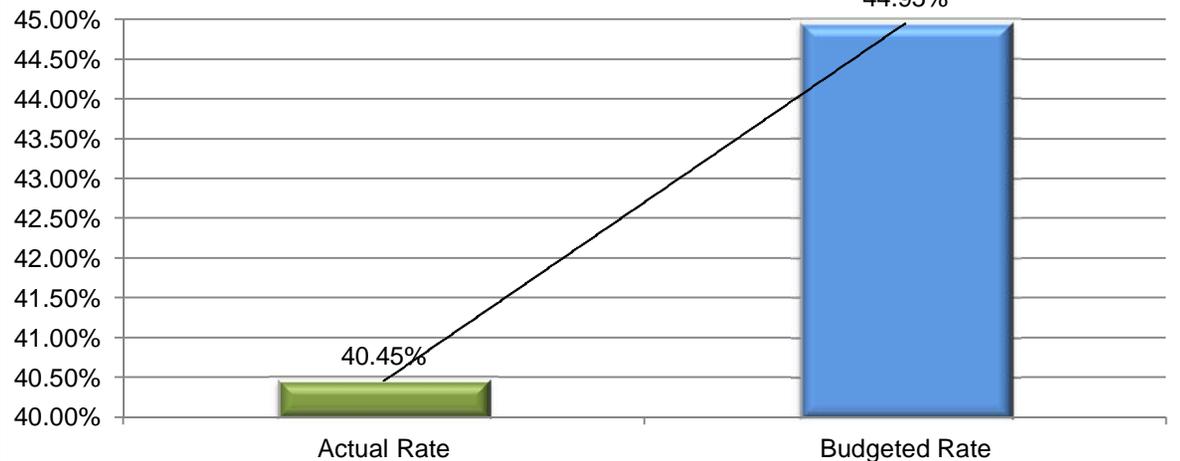


Figure 7--Indirect Overhead Rate



## Association of Bay Area Governments

### Report by Program of Net Surplus/(Deficit) Through September 2014 / 25% of Year Elapsed

Program Description	Adjusted Budget Expenses *	Year-To-Date Revenues	Year-To-Date Expenses	YTD Surplus/ (Deficit)	% of Expense Budget	Explanations for Variances over 5%
	A	B	C	D = B - C	E = C/A	
Planning Services	3,967,523	1,062,407	1,062,407	-	27%	
San Francisco Estuary Partnership	5,549,917	1,101,864	1,136,200	(34,336)	20%	
Disaster Recovery	400,000	126,866	102,225	24,640	26%	
Bay Trail	1,737,560	225,427	225,427	-	13%	More expenditures will incur during the year.
Green Business	120,000	14,532	14,532	-	12%	Program expenditures will increase during the remaining months.
Training Center, Web Hosting and Publications	672,500	166,226	148,057	18,168	22%	
POWER/Energy	9,550,239	2,255,227	2,260,530	(5,303)	24%	
Finance Authority	1,500,000	369,492	365,105	4,388	24%	
Plan Corporation - Property & Liability Insurance Pool	2,250,000	506,377	506,377	-	23%	
SHARP - Worker's Comp Pool	140,000	21,680	21,680	-	15%	Members usually submit reimbursement requests for their wellness programs during later part of the fiscal year (about 35% of budget).
Fiscal Agent Services	101,200	40,162	40,344	(181)	40%	Accounting staff spent more time on contracted services due to the final audit.
Communications/Legislative	775,000	170,459	170,459	-	22%	
Agency Administration	1,016,061	273,628	255,396	18,232	25%	
Payroll Clearing		-	(155,866)	155,866	N/A	The surplus is primarily attributed to high billable hours.
Central Overhead	3,333,913	858,094	772,952	85,142	23%	
<b>Totals</b>	<b>31,113,913</b>	<b>7,192,440</b>	<b>6,925,825</b>	<b>266,616</b>	<b>22%</b>	

\* Projected expenses equal to projected revenues for all programs except for Agency Administration in which a \$50K surplus was budgeted.

Date: November 19, 2014

To: Ezra Rapport, Executive Director

From: Brian Kirking, Human Resources Director  
Herbert L. Pike, Finance Director

Subject: **Report on Diversity and Business Opportunities - FY 2013/14**

This status report summarizes ABAG's business opportunities, recruitment, promotion and training activities during FY 2013-2014 (ending June 30, 2014) and recommends programs that will continue our record toward improving the Agency's diversity.

### **Executive Summary**

ABAG continues to have limited opportunities for employment and promotion due to our size, funding and turnover. The fiscal year ended with 80 employees. During this past fiscal year, ABAG was able to add one permanent full-time male to our management staff, four females to our professional staff of which one is part-time, and four full-time males to our professional staff of which one is a temporary position.

ABAG's Diversity Program has three goals:

- To achieve in major job classifications (Management, Professional, Support) the same proportion of under-represented group members as exists in the nine-county San Francisco Bay Area labor force;
- To provide opportunities for all under-represented group members employed by ABAG to participate in training and education programs that will improve their personal advancement and contributions to the work of the Agency; and
- To ensure that the promotion of under-represented group members employed by ABAG be consistent with relevant skills, experience and background of the employees, performance requirements of higher job classifications and the needs for particular skills and positions in the Agency's work program.

This policy is consistent with the requirements and objectives set forth in Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e); the Age Discrimination in Employment Act of 1967 (29 U.S.C. § 621 et seq); Section 504 of the Rehabilitation Act of 1973 (29

U.S.C. § 793); the Americans with Disabilities Act (ADA) of 1990 (42 U.S.C. § 12101 et seq); and California Government Code Sections 12940 et seq.

The following table shows the racial make-up of the total population and the labor force in the nine Bay Area counties. This reflects 2010 census information.

<b>BAY AREA NINE COUNTIES</b>	<b>TOTAL POPULATION CENSUS 2000</b>	<b>TOTAL POPULATION CENSUS 2010</b>
<b>RACIAL MAKE-UP</b>	<b>6,783,760</b>	<b>7,150,739</b>
Amer. Indian & Alaska Native	0.6%	0.7%
Asian, Native Hawaiian & Other Pacific Islander	19.5%	23.9%
Black or African American	7.5%	6.7%
Hispanic*	19.4%	23.5%
Others	9.2%	10.8%
White	58.1%	52.5%
Two or More Races	4.9%	5.4%

The racial make-up of the three counties (Alameda, Contra Costa and San Francisco) from which ABAG staff is primarily drawn differs from the nine-county Bay Area as shown below.

<b>ALAMEDA, CONTRA COSTA AND SAN FRANCISCO COUNTIES</b>	<b>TOTAL POPULATION CENSUS 2000</b>	<b>TOTAL POPULATION CENSUS 2010</b>
<b>RACIAL MAKE-UP</b>	<b>3,169,290</b>	<b>3,364,531</b>
Amer. Indian & Alaska Native	0.6%	0.6%
Asian, Native Hawaiian & Other Pacific Islander	20.7%	24.8%
Black or African American	11.5%	10.0%
Hispanic*	17.4%	21.3%
Others	8.1%	9.8%
White	54.0%	49.1%
Two or More Races	5.1%	5.7%

\*Persons of Hispanic origin may be of any race. Percent totals of White, Black, Asian, American Indian, Others and Two or More Races may not total 100 percent due to rounding of decimals. Persons who identified themselves in the 2000 census as of Hispanic origin are also included in the racial categories.

**Current Composition of Staff**

The table below shows the composition of the ABAG staff as of June 30, 2014. Of 80 employees, 46 are White (57.5 percent), 16 are Asian (20 percent), 10 are Black (12.5 percent), 3 are Hispanic (3.75 percent), 2 are Other (2.5 percent), 2 are Two or More Races (2.5 percent) and 1 is American Indian (1.25 percent). On June 30, 2013, ABAG had 81 employees; the composition was 59 percent White, 18.5 percent Asian, 12 percent Black, 2.5 percent Hispanic, 4 percent Other, 1 percent American Indian, and 3 percent was Two or More Races. Because of the relatively small size of the staff, the addition or loss of one or two employees appears significant in percentages.

Progress towards diversity shows some variations for different under-represented members when examined by classification. Hispanics are not currently represented in the support classification. As opportunities become available additional effort will be made to recruit this group.

ETHNIC BREAKDOWN BY CLASSIFICATION							
Race	Management		Professional		Support		Total
Amer. Indian	--		1	1.5%	--		1 1.25%
Asian	--		14	21%	2	40%	16 20%
Black	--		8	12%	2	40%	10 12.5%
Hispanic	1	12.5%	2	3%	--		3 3.75%
Others	1	12.5%	1	1.5%	--		2 2.5%
Two or More	1	12.5%	--		1	20%	2 2.5%
White	5	62.5%	41	61%	--		46 57.5%
<b>Total</b>	<b>8</b>	<b>100%</b>	<b>67</b>	<b>100%</b>	<b>5</b>	<b>100%</b>	<b>80 100%</b>

An examination of the composition of staff by classification and gender in the following table shows a need for more females in management and more males in professional and support classifications.

STAFF COMPOSITION BY CLASSIFICATION & GENDER							
Management (8)		Professional (67)		Support (5)		Total (80)	
Male	(6) 75%	Male	(29) 43%	Male	(1) 20%	Total	(36) 45%
Female	(2) 25%	Female	(38) 57%	Female	(4) 80%	Total	(44) 55%

During FY 2013-2014, twelve staff members left the Agency. Seven retired, four resigned and one was terminated at the conclusion of an approved leave of absence.

	White*	Black	Asian	Hispanic	Male	Female
Management	--	--	--	--	--	--
Professional	9	--	2	--	3	8
Support	--	--	1	--	--	1
<b>Totals</b>	<b>9</b>	<b>--</b>	<b>3</b>	<b>--</b>	<b>3</b>	<b>9</b>

\*White includes Other

### **Recruitment**

During FY 2013-2014, the Agency added nine new staff members, five males and four females. Also, a former female support staff member was rehired.

	White*	Black	Asian	Hispanic	Two or More Races	Male	Female
Management	1	--	--	--	--	1	--
Professional	4	--	3	1	--	4	4
Support	--	--	--	--	--	--	--
<b>Totals</b>	<b>5</b>	<b>--</b>	<b>3</b>	<b>1</b>	<b>--</b>	<b>5</b>	<b>4</b>

\*White includes Other

Job openings were advertised with other regional councils of governments and other professional and non-profit organizations. Agency job openings were also posted on the Internet and the application was available online.

Interview panels have, whenever possible, included under-represented group members as well as both genders. This policy will continue. The Human Resources Director and hiring manager select applicants for interview without knowledge of their ethnic status. If, however, this process does not produce representatives of under-represented groups, they are asked to re-examine the credentials of under-represented candidates. Whenever possible, qualified under-represented applicants are invited to interview.

The following table presents the salary breakdown for classified staff by race and gender as of June 30, 2014.

**ASSOCIATION OF BAY AREA GOVERNMENTS**  
**COMPOSITION OF CLASSIFIED STAFF BY GENDER, RACE AND SALARY RANGE**  
(As of June 30, 2014)

SALARY RANGE	WHITE*		BLACK		ASIAN		AMERICAN INDIAN		TWO OR MORE RACES		HISPANIC		SUB-TOTAL		TOTAL
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	
<b>MANAGEMENT</b>															
\$126,996-\$165,000	5	1	--	--	--	--	--	--	1	--	--	1	6	2	
<b>SUBTOTAL</b>	5	1	--	--	--	--	--	--	1	--	--	1	6	2	8
<b>PROFESSIONAL</b>															
\$94,932-\$115,380	1	4	--	--	--	1	--	--	--	--	--	--	1	5	
\$75,024-\$100,548	1	6	1	1	2	--	--	--	--	--	--	1	4	8	
\$68,280-\$83,004	10	8	1	1	4	1	1	--	--	--	--	--	16	10	
\$56,820-\$69,060	2	4	--	1	--	3	--	--	--	--	1	--	3	8	
\$49,512-\$60,180	4	2	--	3	1	2	--	--	--	--	--	--	5	7	
<b>SUBTOTAL</b>	18	24	2	6	7	7	1	--	--	--	1	1	29	38	67
<b>SUPPORT</b>															
\$44,832-\$54,660	--	--	--	--	--	1	--	--	--	1	--	--	--	2	
\$38,952-\$47,352	--	--	--	2	1	--	--	--	--	--	--	--	1	2	
\$35,304-\$42,948	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
\$30,360-\$37,080	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
<b>SUBTOTAL</b>	--	--	--	2	1	1	--	--	--	1	--	--	1	4	5
	WHITE*		BLACK		ASIAN		AMER IND		TWO OR MORE		HISPANIC		SUB-TOTAL		TOTAL
	M F		M F		M F		M F		M F		M F		M F		
<b>TOTAL</b>	23	25	2	8	8	8	1	0	1	1	1	2	36	44	80

\*White includes Other

**Internship Program**

Our traditional summer internship program consistently attracts a high caliber of applicants. The Agency received a total of 117 applications and hired 5 interns who were continuing or had just completed their college education. Of the 5 interns, 3 were White (60 percent), 1 was Asian (20 percent), and 1 was Hispanic (20 percent).

## **Training**

It is the Agency's policy to encourage staff to participate in training to enhance their performance and develop skills for future growth. Thirty-nine employees participated in 50 classes with the assistance of our training and development program. The Agency's expenditure was \$12,199 which compares to \$33,422 invested in FY 12/13 and \$28,855 invested in FY 11/12. The participants were from every classification and represented all races and genders. Although not represented in these numbers, the Agency encourages and supports managers and professionals to participate in workshops and associations related to their field. The expenditures for these on-going professional development programs are included in individual program and project budgets.

All program managers are encouraged to promote the professional growth of their staff. Since funds are limited, we encourage focus on those efforts that enhance the position-related qualifications of regular staff members. A special effort will be made to identify under-represented group members who need guidance and encouragement, as well as financial help, to further their careers. This is especially true for those interested in completing their college education.

## **Promotions**

There were no promotions during this fiscal year.

## **Business Opportunities**

Our adopted diversity policy states in part that:

“ABAG will, in its contracts with third parties for technical, consulting or other professional and non-professional services, comply with Federal rules regarding third-party relationships. ABAG will solicit proposals: from consultants with the required expertise who have protected group representatives among their employees, and from protected group consultants with the required expertise.”

In this spirit during FY 2013-14, ABAG used—and in most cases continues to use—the MBE/WBW firms, organizations or companies presented on Tables I and II.

In the past year, the agency consulting/services contracts with MBE/WBE organizations totaled \$1.000 million representing an increase of 22.55 percent (\$181 thousand) over FY 2012-13. Accounting for the largest increase from the prior year was the moving of the General Assembly to the Oakland Marriott City Center, an Asian-owned enterprise, which accounted for \$135 thousand in FY 2013-14 compared to nothing in the prior year.

At the same time, total contracted services increased in FY 2013-14 over FY 2012-13 by 17.4 percent (\$2.94 million). However, most of this is attributable to pass-through to other governmental agencies within the region, so the subtotal of contracted services for non-governmental entities was \$3.05 million in FY 2013-14, a 1.74 percent (\$52 thousand) increase from the prior fiscal year.

Thus, MBE/WBE contracted services climbed from 27.24 percent of non-governmental contracts for services in FY 2012-13 to 32.81 percent in FY 2013-14. Accounting is hopeful that as we continue to verify and confirm MBE/WBE status of our existing vendors and identify the status of new bidders, the percentage will be able to note a higher MBE/WBE performance percentage in subsequent reports.

Table 1—List of Firms/Contracts by Name and Table II—List of Firms/Contracts by Type are attached and provide additional detail.

### **Conclusion**

Progress toward achieving and maintaining a diverse workforce continues to be a challenge. As in previous years, we continue to seek Hispanic applicants in the professional and support classifications to round out ABAG's diverse workforce. We will continue our efforts to send job announcements to organizations that provide services to Hispanics, such as the Unity Council in Oakland. We will also continue to reach out and provide contracting opportunities to as many under-represented groups as possible, while maintaining our requirements of excellence.

**TABLE I-LIST OF FIRMS/CONTRACTS BY NAME**

COMPANY	NATURE OF WORK	TYPE	FY 2012/13	FY 2013/14
			(\$'000)	(\$'000)
ASIA PACIFIC OFFSET LIMITED	PRINTING	ASIAN		15
BARR, EILEEN C	CONSULTANT	WOMAN	1	1
CAREER ALLIANCE INC	TEMP. PERSONNEL	AFRICAN-AMERICAN	197	165
CUSTOMIZED PERFORMANCE, INC.	JANITORIAL SERVICES	HISPANIC	34	34
FINGER DESIGN ASSOCIATES		WOMAN	3	
GOODWIN CONSULTING GROUP INC	CONSULTANT	WOMAN	30	32
GOZA GEAR		HISPANIC		7
JEANNE PERKINS CONSULTING	CONSULTANT	WOMAN	8	17
JODY LONDON CONSULTING		WOMAN	2	27
JP GRAPHICS INC	PRINTING	WOMAN	9	
JT LITHO	PRINTING	ASIAN	40	42
LUNCHSTOP CAFE METRO CENTER	CATERING	ASIAN & WOMAN	9	7
MAZE AND ASSOCIATES	AUDITOR	WOMAN	109	140
NETWORK CONSULTING SERVICES	CONSULTANT	WOMAN	4	2
OAKLAND MARRIOTT CITY CENTER	CONVENTION HOTEL	ASIAN		135
OKAMOTO, ARIEL RUBISSOW	CONSULTANT	ASIAN & WOMAN	30	65
PAULA SCHULZ	CONSULTANT	WOMAN	8	
PDQ PRINT COPY MAIL	PRINTING/MAILING	ASIAN & WOMAN	1	
PRISTIA, ELIZABETH	TRANSCRIPTION SVCS.	WOMAN		1
PRUNUSKE CHATHAM INC	CONSULTANT	WOMAN	3	
SAFETY COMPLIANCE MANAGEMENT INC	ON-LINE INSTRUCTION	WOMAN	262	291
SIGHT & SOUND CORPORATE STAGING & EVENTS	AUDIO-VISUAL SERVICES	AFRICAN-AMERICAN	21	
SSP DATA PRODUCTS	COMPUTER SUPPLIES	ASIAN & WOMAN	45	19
<b>TOTAL</b>			<b>816</b>	<b>1,000</b>
<b>% OF ALL NON-GOV'T RELATED CONTRACTS/SERVICES</b>			<b>27.24%</b>	<b>32.81%</b>
<b>% OF ALL CONTRACTS/SERVICES</b>			<b>4.84%</b>	<b>5.05%</b>

**TABLE II-LIST OF FIRMS/CONTRACTS BY TYPE**

COMPANY	NATURE OF WORK	FY 2012/13 (\$'000)	FY 2013/14 (\$'000)
<b>AFRICAN-AMERICAN</b>			
CAREER ALLIANCE INC	TEMP. PERSONNEL	197	165
SIGHT & SOUND CORPORATE STAGING & EVENTS		21	
<b>TOTAL AFRICAN-AMERICA</b>		<b>218</b>	<b>165</b>
<b>ASIAN</b>			
ASIA PACIFIC OFFSET LIMITED			15
JT LITHO	PRINTING	40	42
OAKLAND MARRIOTT CITY CENTER	CONVENTION HOTEL		135
<b>TOTAL ASIAN</b>		<b>40</b>	<b>192</b>
<b>ASIAN &amp; WOMAN</b>			
LUNCHSTOP CAFE METRO CENTER	CATERING	9	7
OKAMOTO, ARIEL RUBISSOW	CONSULTANT	30	65
PDQ PRINT COPY MAIL	PRINTING/MAILING	1	
SSP DATA PRODUCTS	COMPUTER SUPPLIES	45	19
<b>TOTAL ASIAN &amp; WOMAN</b>		<b>85</b>	<b>91</b>
<b>HISPANIC</b>			
CUSTOMIZED PERFORMANCE, INC.	JANITORIAL SERVICES	34	34
GOZA GEAR			7
<b>TOTAL HISPANIC</b>		<b>34</b>	<b>41</b>
<b>WOMAN</b>			
BARR, EILEEN C	CONSULTANT	1	1
FINGER DESIGN ASSOCIATES		3	
GOODWIN CONSULTING GROUP INC	CONSULTANT	30	32
JEANNE PERKINS CONSULTING	CONSULTANT	8	17
JODY LONDON CONSULTING		2	27
JP GRAPHICS INC	PRINTING	9	
MAZE AND ASSOCIATES	AUDITOR	109	140
NETWORK CONSULTING SERVICES	CONSULTANT	4	2
PAULA SCHULZ		8	
PRISTIA, ELIZABETH	TRANSCRIPTION SVCS.		1
PRUNUSKE CHATHAM INC	CONSULTANT	3	
SAFETY COMPLIANCE MANAGEMENT INC	ON-LINE INSTRUCTION	262	291
<b>TOTAL WOMAN</b>		<b>439</b>	<b>511</b>
<b>TOTAL MBE/WBE</b>		<b>816</b>	<b>1,000</b>
<b>TOTAL NON-GOV'T RELATED CONTRACTS/SERVICES</b>		<b>2,996</b>	<b>3,048</b>
<b>% OF ALL NON-GOV'T RELATED CONTRACTS/SERVICES</b>		<b>27.24%</b>	<b>32.81%</b>
<b>TOTAL ALL ABAG CONTRACTS/SERVICES</b>		<b>16,867</b>	<b>19,810</b>
<b>% OF ALL CONTRACTS/SERVICES</b>		<b>4.84%</b>	<b>5.05%</b>

**ASSOCIATION OF  
BAY AREA GOVERNMENTS  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**ASSOCIATION OF BAY AREA GOVERNMENTS  
BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

The Executive Board  
Association of Bay Area Governments  
Oakland, California

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Association of Bay Area Governments (Association), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the Table of Contents.

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

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

### *Auditor's Responsibility*

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Association as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Change in Accounting Principles***

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2014 but did not have a material effect on the financial statements:

Statement 65 – *Items Previously Reported as Assets and Liabilities.*

Statement 67 – *Financial Reporting for Pension Plans.*

Statement 70 – *Accounting and Reporting for Non-exchange Financial Guarantees.*

The emphasis of this matter does not constitute a modification to our opinion.

## ***Other Matters***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2014, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

*Mage + Associates*

Pleasant Hill, California  
November 9, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Association of Bay Area Governments (Association) has issued the financial reports for fiscal year ending June 30, 2014 based on the provisions of the Government Accounting Standards Board Statement 34, "Basic Financial Statement and Management's Discussion & Analysis—for State and Local Governments," (GASB 34). One of the most significant requirements of GASB 34 is for government entities to prepare financial reports using the full accrual basis of accounting. Since the Association has already been using this method of accounting, changes in its financial reports are primarily in format of presentation.

GASB 34 requires the Association to provide an overview of financial activities in the fiscal year and it should be read in conjunction with the accompanying financial statements.

### BASIC FINANCIAL STATEMENTS

The Basic Financial Statements required under GASB 34 include:

1. Statement of Net Position—provides information about the financial position of the Association, including assets, liabilities and net position. The difference between this statement and the traditional Balance Sheet is that net position (fund equity) is shown as the difference between total assets and total liabilities.
2. Statement of Activities—presents revenues, expenses and changes in net position for the fiscal year. It differs with the traditional Statement of Revenues and Expenses in that revenues and expenses directly attributable to operating programs are presented separately from investment income and financing costs.
3. Statement of Cash Flows—provides itemized categories of cash flows. This statement differs from the traditional Statement of Cash Flows in that it presents itemized categories of cash inflows and outflows instead of computing the net cash flows from operation by backing out non-cash revenues and expenses from net operating surplus/deficit. In addition, cash flows related to investments and financing activities are presented separately.

The Basic Financial Statements above provide information about the financial activities of the Association's three programs—ABAG, ABAG Finance Corporation and BALANCE Foundation, each in a separate column. Also presented is the San Francisco Bay Restoration Authority as a "discretely presented component unit."

## FISCAL YEAR 2014 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Association's Total Assets were \$13.21 million at June 30, 2014. At June 30, 2013, total assets were \$11.81 million. Total Assets include Cash and Cash Equivalents of \$7.63 million (up \$2.13 million from the prior year), Federal, State and Local Grants Receivables of \$4.89 million (down \$650 thousand), Interest Receivables of \$1,407 (down \$516), Prepaid Expenses and Other of \$196 thousand (up \$79 thousand) and Capital Assets net of Accumulated Depreciation of \$492 thousand (down \$163 thousand). The increase of \$1.40 million in Total Assets is due primarily to the increase in Cash and Cash Equivalents. The primary causes of this improvement in cash are a \$507 thousand increase in unearned revenue, a \$435 thousand increase in accounts payable and an improvement in net position of \$606 thousand. The increase in unearned revenue largely reflects cash advances for several grants that have yet to have expenditures accrued.
- The Association's total program revenues were \$27.14 million in FY 2014, while total program expenses were \$28.54 million. This imbalance (\$1.40 million) is offset by \$1.76 million in Membership Dues, \$234 thousand in unrestricted donations, and \$12 thousand in interest income, all recorded as General Revenues summing to \$2.01 million. This yielded an improvement in net position of \$606 thousand.
- The Association's total net position increased \$606 thousand in FY 2014 to a new total of \$3.28 million at June 30, 2014. This figure includes Restricted Net Assets of \$201 thousand in the BALANCE Foundation.
- ABAG program operating revenues were \$27.11 million in FY 2014. There were no operating revenues for ABAG Finance Corporation, and BALANCE Foundation operating revenues were \$29 thousand.
- ABAG program operating expenses were \$28.43 million in FY 2014, while ABAG Finance Corporation operating expenses were \$6 thousand and BALANCE Foundation operating expenses were \$107 thousand.
- Non-operating revenues (General Revenue) and expense yielded a net gain of \$2.01 million in total, of which \$1.76 million is membership dues, \$234 thousand was in unrestricted donations (\$185 thousand to ABAG and \$49 thousand to BALANCE Foundation) and \$12 thousand in interest income.
- ABAG Net Position was \$2.89 million at June 30, 2014, while ABAG Finance Corporation Net Position was \$35 thousand and BALANCE Foundation Net Position was \$357 thousand at that date.
- The San Francisco Bay Restoration Authority received a \$90 thousand grant and spent \$80 thousand of that for consultant services within its operating budget. In addition, the Authority received a \$50 donation and \$6 in interest in General Revenues. Thus, the Authority ended the year with a net position of \$9,591.

## **CAPITAL ASSETS**

At June 30, 2014, the Association had \$492 thousand in capital assets, net of accumulated depreciation, a decrease of \$163 thousand from the year prior. The change from the prior year is wholly attributable to the depreciation expense associated with facility improvements (\$44 thousand), furniture & equipment (\$110 thousand and capitalized software (\$8 thousand). There were no capitalizable additions, largely because of anticipation of a move to San Francisco in or around December 2015. Further details of the Association's capital assets are presented in Note 3 to the financial statements.

## **DEBT ADMINISTRATION**

The Association's accumulated debt during FY 2014 was reduced in the amount of \$110 thousand through the final payment of \$45 thousand for the seismic retrofit of the MetroCenter and a payment of \$65 thousand toward the \$501 thousand owed for the office improvement project at the beginning of the year. This left a balance of \$436 thousand for the office improvement project. Of the \$436 thousand debt outstanding at the end of the year, \$69 thousand is classified as current portion, payable within the next fiscal year. There was no new debt incurred.

## **MAJOR PROGRAM INITIATIVES IN FY 2013 AND OUTLOOK FOR FY 2014**

We are happy to report the following accomplishments in fiscal year 2014 and goals for fiscal year 2015:

### **Planning & Research Programs**

The primary focus for the Planning and Research Department during FY 2014-2015 will be taking steps to achieve the pattern of growth envisioned in Plan Bay Area, the region's first Sustainable Communities Strategy, and the 2014-2022 Regional Housing Need Allocation (RHNA). Plan Bay Area brings together housing, transportation, economic development, and land use strategies into a set of priorities that can guide development to strengthen the qualities of neighborhoods and ensure protection of natural resources and rural areas.

Implementation of Plan Bay Area is bolstered by the end of the Great Recession in the Bay Area. However, the economic recovery is uneven across jurisdictions within the region. Some cities are struggling to attract investments, while others are experiencing rapid increases in housing costs as a result of significant new residential and commercial development.

ABAG's efforts will focus on maximizing the benefits of new investments throughout the Bay Area and addressing the challenges of rapid growth—especially in the region's adopted Priority Development Areas. This work will seek to expand access to high-quality services and networks of opportunity for all Bay Area residents and increase the range of housing choices—particularly affordable options—in every community. Also, ABAG's tasks have expanded to include economic development policy to strengthen the region's economic competitiveness.

Implementation of Plan Bay Area's vision will also be supported by an increased emphasis on promoting regional resilience in the face of natural disasters. Effort to accommodate growth in PDAs will be complemented by the region's Priority Conservation Areas (PCAs), which are retaining and enhancing the qualities of our natural environment and agricultural lands.

Working closely with local jurisdictions, Congestion Management Agencies (CMAs), and the Metropolitan Transportation Commission (MTC), ABAG's Planning and Research Department will provide planning assistance, research support, and institutional coordination for implementation of PDAs, enhancement of open space and regional trails, housing production, and economic development through the programs described below. These efforts are supported by a stronger research program and new communication tools.

The region's PDAs are the organizing framework for implementing Plan Bay Area. They are expected to accommodate most of the Bay Area's new homes and jobs. The Plan's major investments in transportation and planning assistance are focused in the PDAs, but there are significant obstacles to achieving PDA growth and investment. ABAG and local jurisdictions will conduct a focused effort to identify and overcome these obstacles, with an emphasis on development feasibility and entitlement, while supporting adopted PDA plans.

In Plan Bay Area, the majority of housing and job growth is projected in the PDAs along transit corridors stretching between San Francisco, San Jose, Oakland, and West Contra Costa County. These corridors will increasingly function as an interconnected system. Implementing the Plan will depend upon the success of all of the communities and business districts along the corridor, which today vary significantly in terms of housing and commercial development, amenities, infrastructure, and public services.

In coordination with local jurisdictions and CMAs, Planning and Research staff is conducting a detailed analysis of each corridor's PDAs in order to evaluate development potential and readiness as well as impediments to development. Based upon this analysis ABAG will work with responsible parties, including affected special districts, to address challenges that cross jurisdictional boundaries. The result will be a comprehensive assessment of the specific qualities and unique needs of PDAs along each corridor, identification of common obstacles to development, and a tailored set of best practices and implementation actions involving jurisdictions, communities, businesses, and special districts. This effort will be closely coordinated with the housing and economic development efforts as described below, and will build upon advances planning such as the El Camino Real Grand Boulevard Initiative and the PDA Investment and Growth Strategies completed by CMAs.

Plan Bay Area sets the stage for local jurisdictions to choose to take full advantage of relatively new State legislation to increase the efficiency of the development process for projects within PDAs. In addition to providing guidance to local jurisdictions on entitlement efficiency, ABAG will advocate for state legislative and administrative reforms to remove bureaucratic obstacles that are a by-product of the dissolution of redevelopment agencies, and to make resources available for producing affordable housing and fostering economic growth in PDAs.

Plan Bay Area identifies the need for strategies to improve resilience in the face of natural disasters. ABAG will assess earthquake and hazard' risk in PDAs as well as work with the Bay Conservation and Development Commission (BCDC) to analyze the risk of sea level rise and seismic hazards along the Bay shoreline. The program will also continue research on infrastructure vulnerability and interdependencies following a major disaster.

These and other program efforts will involve consultation with jurisdictions in high risk zones, infrastructure providers, other special districts, and regional agencies to develop specific local strategies for resilience. These strategies can make use of the opportunity of new development to plan appropriate mitigations and adaptations for proximate hazards such as air quality near freeways and arterials, as well as impending hazards such as earthquakes, sea level rise and storm-induced flooding.

Since its inception in 2007, the MTC/ABAG PDA Planning Grant program has supported the development and adoption of 52 plans to create walkable, mixed-use communities within walking distance of transit. These plans accommodate the potential development of more than 40,000 new housing units, 60,000 new jobs and 24 million square feet of commercial space. Upcoming plans could add another 28,500 units. To enhance PDA planning capacity across the region, each county received a dedicated share of PDA planning funds between 2013 and 2017. These funds are allocated to local jurisdictions by CMAs. This approach helps ensure a comprehensive process for funding PDA planning throughout the region. To complement the county PDA programs, MTC and ABAG will continue to lead a strategic regional PDA planning grant program which focusses on implementation issues such as affordable housing production, rehabilitation and preservation; community stabilization; and overcoming a variety of obstacles to infill development. Planning and Research Department staff provides primary contact and support for the local planning staff involved.

Increasing housing production and affordability—especially in transit-served locations—is essential for achieving the vision of focused growth articulated in Plan Bay Area. ABAG is working with the private and non-profit sectors to provide a comprehensive approach to promote housing production and rehabilitation while supporting neighborhood stability and community resources. This approach emphasizes increasing the funding for affordable housing, removing barriers to housing production, promoting the preservation of affordable housing as a tool to prevent displacement, and facilitating the collection and sharing of information. While addressing the region’s housing challenges on a broad scale, this effort will also seek to identify tools and strategies to assist local jurisdictions in spurring housing growth in PDAs based upon each community’s unique needs and circumstances.

State subsidies play an important role in meeting our workforce housing needs. However, there are not enough existing resources to adequately address the state’s housing needs. ABAG will work with local jurisdictions, housing advocates, and other stakeholders to pursue additional funding sources for housing production and preservation, particularly those dedicated to affordable housing.

ABAG is also working to target regional resources for affordable housing to support Plan Bay Area implementation. Plan Bay Area allocates \$12 million to the Transit-Oriented Affordable Housing (TOAH) fund. Funded by MTC, the TOAH has been recognized as a national model for linking housing and transit investments. ABAG will continue to work with MTC to refine the criteria for TOAH-funded projects to ensure the program supports the goals of the Plan.

Information about the Bay Area housing context, including development activity, local plans and policies, housing needs, and available resources, is an essential foundation for policy development and legislative advocacy. ABAG staff will gather housing data to support the policy objectives of PLAN Bay Area and improve the accessibility and usefulness of the data to partner and member agencies. This includes supporting local governments working on updates to their Housing Elements to incorporate the 2014-2022 Regional Housing Need Allocation and Congestion Management Agencies developing the PDA Investment and Growth Strategies to improve coordination of housing and transportation investments.

Through the Sustainable Communities grant from the U.S. Department of Housing and Urban Development (HUD), ABAG is advancing numerous housing-related projects.

In addition to pursuing creation of new sources of state and regional funding for affordable housing development, ABAG will actively pursue adjustments to state housing policies. Key issues include ensuring that Housing Element policies are aligned with the region's changing demographics and housing needs, particularly with respect to senior housing and preservation of existing affordable housing, and that the disposition of land within PDAs owned by former redevelopment agencies takes place in a timely manner. ABAG staff will also pursue opportunities to initiate or support legislation that promotes the goals of Plan Bay Area.

ABAG will collaborate with regional agencies, business groups, and community-based organizations to strengthen the competitiveness of the regional economy, enhance local business districts in PDAs, address goods movement and industrial land, expand access to opportunities for all Bay Area residents, and develop economic development policies for the next update to Plan Bay Area.

As part of the HUD Sustainable Communities grant, MTC and ABAG are working with a broad group of private, non-profit, and public sector stakeholders to create a strategy to expand opportunities for the region's low and moderate income workers. The regional agencies and partner organizations will conduct outreach to community groups, workers, and the business community. The effort will also support a technical assessment of industries of opportunity, employment barriers, best practices, and policies addressing issues such as job creation, career pathways, and apprenticeships.

The Prosperity Strategy will address the Bay Area as a whole as well as sub-regions. In addition to a set of policies and actions, the Strategy will fund pilot projects that support its objectives and seek to establish replicable approaches to expanding opportunities for low and moderate income workers.

ABAG will create place-based strategies to support the economic growth of different types of PDAs and job centers. This will respond to the changing dynamics of the regional and sub-regional economies and the needs of growing industries. ABAG will investigate the unique role of different types of PDAs in the regional economy, ranging from centers in which office and retail jobs cluster around transit hubs to agricultural areas protected from urban development. The place-based strategies will include approaches to both strengthen local business districts and create physical environments that support investment in driving industries.

The movement of freight and the protection of production and distribution businesses have important environmental, economic and equity implications for the region. The region is home to the fifth-busiest maritime port in the nation, the Port of Oakland, which serves not only Bay Area residents and industries, but also provides a critical link to national and international markets for North Bay and Central Valley agriculture. Furthermore, the nine-county Bay Area is closely connected with its adjacent counties and metropolitan areas. Alameda, Solano, Contra Costa and Santa Clara counties are especially affected by decisions in neighboring counties outside of the nine-county Bay Area related to inter-regional commuting, shipping and land use patterns, housing needs and job access. ABAG and MTC recognize the need for coordinated planning of local, regional and state investment strategies to ensure that the Bay Area's growth opportunities and inter-regional challenges are adequately addressed.

Current efforts on good movement within the regional and sub-regional analysis of goods movement in terms of the role of the transportation system, land use requirements, and air quality implications; identifying best practices for economic development as this relates to goods movement; coordination with sub-regional and local jurisdictions on the sometimes competing demands of truck flows, freight rail, and passenger travel; and collaboration with the Alameda Countywide Goods Movement planning process to identify needs and short and long term priorities for freight and goods movement.

The Bay Area Council Economic Institute (BACEI) has invited ABAG to participate in its proposed public-private partnership engagement process. The process would be conducted by the BACEI professional staff in cooperation with the business leadership organization of the Bay Area Council. This would involve meeting with local leaders and organizations that have developed their own economic development strategies, to learn from the experiences of the different organizations and identify linkages and commonalities across the region. The next stage of the process would involve convening a diverse group of stakeholders from the business community (representing a wide spectrum of industries, firm sizes and leadership roles) and the public sector into a steering committee whose tasks will be to explore the region's best opportunities for economic success, framing an overall strategy, and defining concrete actions.

Priority Conservation Areas (PCAs) complement PDAs by identifying locations with high ecological, recreational, and economic value. More than 100 locally selected PCAs provide a framework to refine the PCA program and advance regional open space strategies. Adoption of Plan Bay Area sets the stage for implementation activities.

ABAG will expand its forecasting capabilities; improve its underlying understanding of characteristics and motivations for businesses, households, and individuals that affect land use and travel decisions; and analyze important policies affecting access to jobs and housing in the region. In collaboration with MTC, ABAG staff will complete the State of the Region report to assess the ongoing trends and major accomplishments as a point of departure for the preparation of Plan Bay Area 2017.

Although the Plan Bay Area update will not be released until 2017, the schedule for adopting revisions requires that any changes in methodology for forecasting and projections as well as assessment of current trends occur during 2014 and 2015.

*In fiscal year 2015 the Planning and Research Programs will:*

1. Continue to work with cities and CMAs on development entitlement efficiency, infrastructure investments, housing funds, publicizing effective local policies and practices in PDAs, and providing targeted grant support. Staff will also integrate local and regional resiliency to major earthquakes and flooding into the PDA framework.
2. Advance ABAG's legislative agenda to develop new funding sources for affordable housing and to remove obstacles to jurisdictions' implementation of local infill development objectives; work with MTC to use existing resources to incentivize and support infill housing production' and continue to co-lead the Housing the Workforce initiative of the Regional Prosperity Plan (aka HUD grant) to address economic displacement due to new development and to upgrade the housing production tracking system.
3. Work to improve methods to monitor housing production across the Bay Area to track PDA implementation progress and inform strategies to address the housing production shortfall.
4. Sponsor pilot projects by cities and partner organizations in local communities to test or implement new funding and incentive strategies.
5. Conduct a Fair Housing Equity Assessment, an analysis of issues such as segregation, housing discrimination and access to opportunity, leading to recommendations for regional-level strategies that complement local efforts to advance equal housing opportunity.
6. Create, in collaboration with MTC and UC Berkeley, an "early warning system" to identify neighborhoods in which low-income residents and local businesses are at risk of displacement due to rising rents and new development, and supporting pilot projects that engage residents and businesses to develop and implement community stabilization strategies.

7. Develop a framework for regional economic development trends and strategies in collaboration with MTC. We will coordinate the integration of the job mobility effort under the Regional Prosperity Strategy; goods movement and industrial land projects under MTC, CMAs and ABAG; and business partnerships under the Bay Area Council Economic Institute. We will also develop a place-based strategy that addresses the wide variety of employment centers in the region.
8. Work with MTC to implement the OBAG PCA program, lead development of regional conservation strategies, refine the PCA certification framework and criteria, and consider applications for new PCAs as needed.
9. Through the One Bay Area Grant (OBAG) PCA Grant Pilot Program, ABAG and MTC will assist local jurisdictions and CMAs in implementing a \$10 million program to support projects in PCAs; administer \$5 million directly in North Bay counties and \$5 million through the State Coastal Conservancy for the rest of the Bay Area. Continuing assistance and evaluation of this pilot project will help inform future opportunities for grant-funded conservation projects.
10. Update the PCA Framework. Drawing upon lessons learned from the PCA grant process and the wealth of available data on the region's natural systems and agricultural economy, ABAG in partnership with key open space entities will update the PCA Framework to further define the role of different kinds of PCAs to support habitat, agriculture, recreation, and various ecological functions. This will involve consultation with jurisdictions, open space and recreation districts, the region's scientific community, and farmland organizations.
11. Work with jurisdictions and other stakeholders to evaluate and potentially establish additional PCAs. This may involve refinement of existing PCA guidelines.
12. Refine forecasting and land use analysis tools, support the development of economic strategies, provide analysis to support legislative initiatives and local planning, assess current regional trends in preparation for Plan Bay Area 2017, and provide public access to demographic, housing, economic, and land use information.
13. Develop a State of the Region report focused on employment, income, access to housing and social factors such as education, and address PDA development trends.
14. Work with MTC's modeling group on improvements to the calibration of UrbanSim and extension of its capabilities.
15. Update regional forecasting methodology for use in the Plan Bay Area update.
16. Refine tools for evaluating development feasibility in PDAs.

17. Research to support policy, forecasting, and intraregional modeling work related to migration, household structure and housing demand, income distribution, and economic determinants of residential preferences.
18. Develop a data “library” to make relevant resources readily available within and beyond the regional agencies.
19. Develop a dashboard to track changing development patterns in the Bay Area, areas experiencing increased development pressure, and progress that local governments are making in meeting the housing goals identified in their Housing Elements.
20. Determine the benefits of a transit oriented development location to residents of subsidized housing projects.
21. Update the PDA showcase, which combines mapping and information on projections for each PDA identified in Plan Bay Area.
22. Consolidate access to natural hazard mapping information to a single site.
23. Continue to advance the agency’s role in coordinating regional and subregional planning activities, primarily through the Regional Planning Committee, Regional Airport Planning Commission, and Hazardous Waste Management Facility Allocation Committee; as well as regular contact with local planners in every Bay Area jurisdiction and regional planners in all regional agencies. ABAG will see federal and state regulatory flexibility to allow modernizing its mandated function as clearinghouse for environmental documents related to public capital projects.

### **Hazardous Waste Allocation/Bay Area Green Business Program**

Since 1990, the Hazardous Waste Management Facility Allocation Committee has developed innovative programs that enable ABAG members, their residents and businesses to enhance our Bay Area by preventing pollution, conserving resources and reducing waste

Established in response to state legislation that required counties to plan for facilities to manage hazardous wastes, The Committee directed ABAG to develop a regional “fair-share” allocation process. With periodic revisions to address changing waste streams, ABAG staff use the process to follow hazardous waste trends and inform local and regional pollution prevention activities.

In 1996, in partnership with federal and state agencies, the Committee launched the Bay Area Green Business Program. The nation's first comprehensive environmental certification for small businesses, the Program verifies that applicants meet rigorous performance standards. The recognition allows users to choose environmentally responsible firms. More than 2,400 businesses have been certified in our region, close to 3,000 statewide.

Current initiatives include support for Extended Producer Responsibility to shift the expense for safe management of spent hazardous consumer wastes, such as batteries, fluorescent lights, pharmaceuticals, and computers away from local governments and back to manufacturers.

*In fiscal year 2015 the Hazardous Waste Allocation/Bay Area Green business Program will:*

1. Increase the number of certified green businesses in the Bay Area to 2,600.
2. Produce case studies on local government sustainable purchasing efforts to speed implementation of such programs throughout the region.
3. Research the potential to site facilities that process spent batteries, used computers, and similar products in the Bay Area.
4. Monitor and advise the Legislation and Governmental Organization Committee on legislative and other efforts to implement Extended Producer Responsibility.

### **San Francisco Bay Trail and San Francisco Bay Area Water Trail**

Creating healthier communities is one of the key goals of Plan Bay Area. ABAG is committed to implementing the San Francisco Bay Trail and the San Francisco Bay Area Water Trail, which both envision healthy, active, and informed communities. The Bay Trail and the Water Trail inspire people from throughout the area to experience the Bay in different ways—along its edges and on its waters. As these two trail systems are expanded, Bay Area residents and visitors will enjoy even more opportunities for recreation, active transportation, and environmental education.

The San Francisco Bay Trail is a visionary plan for a shared-use bicycle and pedestrian path that will one day allow continuous travel around San Francisco Bay. At the end of 2013, 334 miles of trail had been completed. Eventually, the Bay Trail will extend over 500 miles to link the shoreline of nine counties, passing through 47 cities and crossing seven toll bridges. ABAG administers the Bay Trail Project and provides regional leadership for its completion.

The San Francisco Bay Area Water Trail is a network of landing and launch sites around San Francisco Bay for non-motorized small boats. ABAG play a role in implementing this new regional trail in partnership with the Coastal Conservancy, the Bay Conservation and Development Commission, and the California Department of Boating and Waterways. The Coastal Conservancy provides funding for a portion of ABAG's administrative role and for improvements to launch sites that become part of the Water Trail system.

*In fiscal year 2015 the San Francisco Bay Trail will:*

1. Manage active planning and construction grants and work with the Coastal Conservancy to award grants under a new 2014 funding allocation.
2. Expand partnerships with private corporations and other organizations for specific gap closures.
3. Participate in *the Adopting to Rising Tides* focused working groups and provide input on climate action plans.
4. Complete a revision to the *Bay Trail Design Guidelines*.
5. Meet with state legislators to share Conservancy and Bay Trail grant program accomplishments and cultivate legislative champions.
6. Move forward on completing the regional sign installation plan.
7. Work with local agencies, Ridge Trail and other partners to host events and promote the 25<sup>th</sup> anniversary of ABAG's adoption of the *Bay Trail Plan*.
8. Create a mobile application for destinations at four sites along the Bay Trail.
9. Work in partnership with the Coastal Conservancy, BCDC, California Division of Boating and Waterways and the Water Trail Advisory Committee to effectively designate and improve Water Trail sites.
10. Expand on ABAG's close working relationship with shoreline jurisdictions to encourage and assist local support for and involvement in the Water Trail network.
11. Promote completion and stewardship of the Water Trail to the boating community and the public as a safe, inclusive and environmentally sensitive form of recreation on San Francisco Bay.
12. Solicit, review, award, and manage grants to local jurisdictions for planning, design, and construction of Water Trail sites.

13. Publish project updates; provide outreach and education; meet regularly with agency staff and Water Trail site owners; and participate in trail dedications and other public events.

### **San Francisco Estuary Program (SFEP)**

The San Francisco Estuary Partnership mandate is to “protect, enhance, and restore the San Francisco Bay-Delta Estuary” through implementation of actions called for in the *Comprehensive Conservation and Management Plan (CCMP)*.

The SFEP and its cooperating agencies and organization both initiated, and continued work on a wide array of projects and activities in support of the Partnership’s mandate.

Highlights during the last year included:

- The successful completion of our work with 66 cities in the region providing them with over \$4 million and 4,000 trash capture devices to help make our streams and bay cleaner and healthier for people, fish and wildlife.
- Continuation of our \$5 million partnership with seven East Bay cities having secured funds to build green stormwater treatment devices to improve water quality and quality of life along San Pablo Avenue.
- Organizing the highly successful San Francisco Estuary Conference, this year partnering with ABAG and the San Francisco Estuary Institute’s Regional Monitoring Program, which was held in Oakland in October with over 800 attending.
- Continued public outreach efforts with the 21<sup>st</sup> year of publication of our award-winning *Estuary* news magazine.

*In fiscal year 2015 the San Francisco Estuary Program and partners will:*

1. Initiate GreenPlan Bay Area, a collaborative effort between SFEP, San Francisco Estuary Institute, and Bay Area municipalities to develop spatial tools which will be used to develop plans that identify the optimal combination of Green Infrastructure – Low Impact Development features for achieving desirable outcomes at the watershed scale.
2. Implement Flood Control 2.0. This timely project will develop a set of innovative approaches for bringing environmental benefits and cost-savings to flood protections infrastructure along the San Francisco Bay shoreline. This work will help transform costly trapped sediment in local flood control channels from a problem into a resource.

3. Continue Creek Mouth Assessments. Since the earliest days of human habitation in the San Francisco Bay Area, the mouths of the region's many creeks have been valued for their rich ecology and the abundance of plant and animal species. In 2012, SFEP and the San Francisco Estuary Institute undertook a comprehensive regional inventory and assessment of creek mouths around the Bay.
4. Update its understanding as to the health of the estuary. The partnership is beginning a review and update of its major 2011 assessment of the San Francisco Estuary with health indicators and benchmarks that inform the public and policy makers about how we are progressing in our efforts to secure a healthy and vibrant regional environment. A new report is expected to be completed and released at the September 2015 State of the Estuary Conference.
5. Work with the Regional Water Quality Control Boards (RWQCB-San Francisco Bay and North Coast) and other partners, to complete a stream and wetland protections policy for the two regions.
6. Work with partners to implement/develop new low impact development concepts to clean urban storm water; and implement restoration projects in San Francisco and the shoreline and bed of the bay.
7. Provide technical support services to the Santa Clara Valley Water District, Alameda County Flood Control Program, CalTrans, Marin County, SMART, the Sonoma County Water Agency, and the San Francisco Public Utilities Commission.
8. Provide technical assistance to the State Water Board managing environmental projects required in lieu of water quality fines by the San Francisco Regional Water Quality Control Board.
9. Continue to support the Bay Delta Science Program by contracting with experts to assist in the scientific research to support delta restoration efforts.
10. Manage the newly-released *Got Ants* social media campaign to reduce pesticide use in urban creeks and promote Integrated Pest Management practices.
11. Continue to work on another 40+ projects directed at improving the health of the estuary.

## **ABAG Publicly-Owned Energy Resources (POWER)**

ABAG Publicly Owned Energy Resources (ABAG POWER) is a joint powers agency (JPA) formed by ABAG in 1997 to acquire energy on behalf of local governments, as well as provide energy management and telecommunication services. ABAG POWER currently offers natural gas aggregation to 38 local governments and special districts in the Pacific Gas and Electric (PG&E) service territory. ABAG POWER provides a public sector approach to pooled purchasing, and each public agency is guaranteed a voice in program operations and decisions through its representative to the ABAG POWER Board of Directors and Executive Committee. ABAG and ABAG POWER are also working to expand their sustainability and energy management services to local jurisdictions through the implementation of energy efficiency, renewable energy, and general sustainability programs.

The natural gas purchasing pool has now completed its 17<sup>th</sup> year of operation. ABAG POWER purchases natural gas on behalf of members and arranges for it to be delivered to the PG&E system for distribution. The goal of ABAG POWER's Natural Gas Program is to provide both cost savings and price stability. These goals differ from that of PG&E which is incentivized to provide low cost gas on a near term (monthly) basis. ABAG POWER stabilizes its gas prices by layering in longer term gas purchases, with the alternate objective of diversifying its gas purchase portfolio. The Program uses a continuous three year ahead planning cycle to design its purchasing strategy. Market rates for natural gas have increased modestly during the past year in parallel with the turn-around in the overall economy. Prices are expected to continue edging slowly higher in the near future.

Price volatility remains a significant risk. There are many factors that can cause significant price volatility, including abnormal weather patterns, increased demand from gas powered generators, restrictions in gas transportation capacity and/or imports, the price of oil, regulatory actions, and political instability. In addition, an increased focus on environmental issues may cause regulatory actions that produce increased costs for using petroleum products, including natural gas. ABAG POWER closely monitors these price volatility factors as part of their service and continues to follow regulatory actions that may affect both the natural gas and electrical energy markets.

In 2013, ABAG was a subcontractor to LA County as part of the state and national **Better Buildings Program** coordinated by the Department of Energy (DOE). Four Bay Area agencies (Alameda County, San Francisco, San Jose and Sonoma County) implemented a variety of energy efficiency retrofit projects under this program. The program was completed in May 2013, although some of the individual projects were continued in modified formats as part of the BayREN program.

In 2012, ABAG applied for, and received funding (\$26.5 million) from the California Public Utilities Commission (CPUC) for the creation and implementation of the San Francisco Bay Area Regional Energy Network (BayREN). BayREN is led by ABAG in collaboration with the nine Bay Area Counties, and is intended to implement effective energy savings programs during calendar years 2013-14. The program is expected to save over 11 million kWhs and 6,000 therms.

The four main program elements of BayREN are single-family energy retrofits, multi-family energy retrofits, develop and standardize energy efficiency codes and standards and the provision of financing for energy efficiency projects.

During the past year, ABAG was the lead agency for the EV Corridor grant from the California Energy Commission. This program provided \$1.5 million for the installation of EV charging infrastructure in the San Francisco and Monterey Bay areas.

In addition, ABAG is a principal sponsor of the Bay Area EV Strategic Council which provides coordination with other Bay Area Regional Agencies, as well as regulatory bodies and private industry.

*In fiscal year 2015 ABAG POWER will:*

1. Continue to provide cost effective natural gas aggregation and delivery services for local governmental agencies. This will include active solicitations among natural gas marketers, and the addition of new gas suppliers, as necessary, to continue receiving the most competitive pricing. The program will pursue longer-term fixed price gas products in order to stabilize program costs.
2. Look for additional ways to improve the customer service aspects of the program, in particular with respect to billing and analysis functions.
3. Continue to encourage additional participants in both the core and non-core programs.
4. Continue oversight of the BAYREN program and seek renewal funding to continue its programs.
5. Continue to seek out other grant opportunities to bring funding to the Bay Area for energy efficiency enhancements, as well as alternative energy alternatives.

## **Insurance Pool Programs**

Organized in 1986, the ABAG Pooled Liability Assurance Network (ABAG PLAN) Corporation provides property, liability and crime coverage to 29 cities and towns in the greater Bay Area under a pooled risk sharing agreement. In addition to PLAN, the SHARP Program (Workers' Compensation Shared Risk Pool) provides affordable Workers' Compensation coverage to its participating members.

ABAG PLAN has approximately \$45.5 million in total assets and has returned over \$22 million in dividends to its members since inception. ABAG PLAN continues to offer members significant premium savings. Through ABAG PLAN members have at their disposal a wide array of resources including grants, training, best practices guidelines, and specialized consultation. These resources help members maintain or improve the health and safety of their citizens and employees. The PLAN program invests over a million dollars annually in its Risk Management Best Practices Program, which focuses on Loss Control and Safety. ABAG PLAN's Risk Management Grant program helps members supplement their fiscal needs in the area of Risk Management and Loss Prevention. Active participation has enabled PLAN members to better manage their limited financial resources.

Members are actively involved in PLAN governance and Risk Management Best Practices. The success of ABAG PLAN is largely attributable to the active participation of its members. ABAG and its members are working together to share resources and best practices that help members meet the broad array of challenges they face. Efforts are orchestrated to directly improve the lives of those who live within their communities. Plan has assisted members in the implementation of key loss control measures to reduce claims in public playgrounds, parks, police operations, and claims related to sidewalks, sewers and trees. By focusing on key areas of municipal exposure to loss and by placing emphasis on safety and the benefits of our Risk Management program(s), ABAG PLAN has assisted members in reducing losses.

*In fiscal year 2015 the Insurance Pool Programs will:*

1. Continue to work with its members providing Risk Management and Loss Control consulting services, as well as superior Claims Administration services. Our goal is to provide high quality service to PLAN members which will allow them to effectively manage the complex risk they face as municipal enterprises.
2. Continue to provide stable loss funding rates for the Liability Program. Premium stabilization and broadening coverage will be a focus of our Property Program. PLAN will continue to improve claim analytic reports to assist in the analysis of loss performance and aid in the development of appropriate risk management and loss reduction strategies. PLAN's new automated claims reporting platform and deductible billing interface have been fully implemented. .

3. Continue to maximize recovery and subrogation opportunities which effectively reduce “net” loss dollars and preserve a significant amount of claim dollars for our members.
4. Continue to provide a broad range of training focused on the unique needs of our members. We will continue to provide technical training support and training resources to members to enhance their technical skills in Claims and Risk Management. The PLAN grant program will be used to support Risk Management Best Practices and Loss Control programs.

### **ABAG Financial Services**

ABAG Financial Services has been providing conduit financing to various public and private organizations throughout the State of California since 1978. Its programs provide convenient, cost saving, and secure means to meet the capital financing needs of public agencies and their nonprofit partners serving the public interest.

- To date, ABAG Financial Services has provided nearly \$8 billion in low cost capital financing for projects in more than 240 California government jurisdictions.
- The Agency helps its members provide for construction of new hospitals and medical clinics, transit systems, affordable housing, schools, museums, water and wastewater systems, and other member-owned infrastructure.
- The Agency takes special focus on assisting in the construction and preservation of affordable housing, providing financing to date for nearly 12,000 units in nearly one-hundred affordable apartment communities.

*In fiscal year 2015 ABAG Financial Services will continue to offer:*

1. Economical funding for developers of affordable multi-family housing, independent schools, hospitals, clinics, and other voluntary healthcare providers through the various programs of the ABAG Finance Authority.
2. Tax-Exempt Lease financing through ABAG Credit Pooling and ABAG Leasing programs, providing the lowest available cost source for funding for both major lease secured projects and smaller capital equipment needs.
3. Comprehensive services to meet the land-secured and economic development financing needs of member agencies.
4. Its industry leading pooled financing vehicle for Water and Wastewater Districts. This financing pool provides easy access and low cost funding for the smaller borrowing needs of ABAG members and special districts in their jurisdictions.

## **ABAG Training Center**

The ABAG Training Center has been an ABAG service program since 1979, created to provide economical alternatives for local government employees to obtain professional development training. Today's courses focus on safety training for field workers and first responders required by the Occupational Safety and Health Administration (OSHA) and the U.S. Department of Transportation (DOT). Because of early entry into this training field, this program has developed a strong catalog of courses, a good reputation, and capable student management and course enrollment and delivery systems.

- The development of the Internet allowed us to offer courses not only to employees of Bay Area local governments, but also to students around the world. More than 7,000 students each year receive training through our web-based identity-- [www.hazmatschool.com](http://www.hazmatschool.com).
- A redesigned website and updated content covering the Globally Harmonized System of Classification and Labeling of Chemicals has positioned the program for the future.

*In fiscal year 2015 ABAG Training Center will:*

1. Introduce a new course focusing on spill response.
2. Incorporate additional video presentations into courses.
3. Grow revenues to exceed previous years.
4. Maintain personalized service and worthwhile training experience for our members and clients.

## **Fiscal Management Services**

ABAG continues to offer fiscal management services to Bay Area public purpose entities and region-wide grant programs. In addition to ABAG itself, we provide financial services to ABAG PLAN Corporation, ABAG Comp Shared Risk Pool, ABAG Finance Authority, ABAG Publicly Owned Energy Resources, the San Francisco Bay Restoration Authority, the California Public Agencies Self-Directed Tax Advantaged Retirement System and the San Francisco Bay Area Water Emergency Transit Authority. These services include accounting, financial reports, cash management, investments, debt issuance, grants management, and other related financial support services.

Over the last year, several grants furthering sustainability have been awarded and required substantial fiscal oversight including grants for the promotion and incentivizing the evaluation of energy efficiency of homes multi-unit dwellings and the installation of enhancements such as insulation, double-paned windows and solar panels, and grants for managing water-quality projects across the region. The complexity in managing the fiscal side of these projects manifested itself in a four Single Audits in fiscal year 2014. In spite of this increased scrutiny, the Federal government granting agencies and our external auditors continue to provide an unmodified (positive) opinion as to our fiscal accountability and have reported no fiscal deficiencies. This continuing clean record places ABAG and its related entities in a preferred position by demonstrating its capacity to manage large grants, thereby facilitating applications to obtain additional funding for ongoing energy transformation, land use sustainability planning, promotion of infrastructure for electric vehicles, and conducting environmental assessments and implementing programs to mitigate identified environmental issues.

*In fiscal year 2015 Fiscal Management Services will:*

1. Review and update, in collaboration with Information Technology, business continuation and disaster recovery plans for ABAG services. While documenting the plans, staff will identify the necessary resources and implement the plans, including such item as off-site operation sites, enabling staff to work from remote locations, and critical supply caches for special check stock and other items.
2. Continue to provide error-free grants fiscal management services with the incorporation of best practices and additional automation tools to improve the timely and efficient provision of services.
3. Initiate regularly scheduled, monthly meetings with our significant entities to review service levels with the manager of each to discuss service enhancements to better serve them, for example reporting timelines, formatting of reports, and resolving coding issues.

### **Legislative Activities**

During 2013, ABAG's Legislation and Governmental Organization Committee (L&GO) focused on supporting integrated planning and sustainable community implementation. Legislation establishing innovative financing for planning and infrastructure services to assist local government was a priority focus.

More than 37 state bills were reviewed and considered during the 2013 Legislative Session by the L&GO Committee. Nine of the bills tracked and supported by ABAG became law and three were vetoed. The bills passed addressed land use and planning, community development, the San Francisco Bay Restoration Authority, the use of public resources, and restriction on firearms and large capacity magazines.

Environmental bills supported by ABAG that addressed local agencies' hazardous materials clean-up and environmental quality as related to transit oriented infill projects and judicial review streamlining for environmental leadership development projects, also passed and became law. Many important financing mechanism bills that reflected the full range of Committee legislative priorities became inactive or were held in suspense during this first year of the two-year session; from the California Homes and Jobs Act to a wide range of sustainable communities funding strategies.

Committee activities throughout the year included policy briefings, a Legislative Workshop and Reception co-hosted by ABAG, CALCOG and CSAC with MTC support, and face-to-face dialogues with legislators about Bay Area needs and challenges.

*In fiscal year 2015 Legislative Activities will:*

1. Continue focus on Plan Bay Area Implementation which includes legislative objectives such as affordable housing funding, housing element reform, and better CEQA/entitlement efficiency. These legislative strategic efforts will also involve pursuing permanent funding for COGs, MPO, and local governments to fulfill Plan Bay Area implementation and funding sources that provide resources and incentives for planning, infrastructure, and services to assist local government.
2. Continue to pursue legislation that would lower the 2/3 supermajority vote threshold for infrastructure taxes and bonds state-wide and locally.

**Communications**

The Communications Department focused on regional outreach and community engagement strategies in collaboration with our Bay Area cities, towns, and counties to develop and implement Plan Bay Area. Regional conferences, workshops, publications, media, and web outreach helped provide a platform for discussion about Plan Bay Area, sustainable growth, economic resilience, and complete communities.

ABAG's Spring General Assembly, "Planning for People and Places offered an interactive forum on jobs and housing trends, neighborhood design and place-making, and sustainable community development, featuring Robert Reich, former US Secretary of Labor and current UC Berkeley Chancellor's Professor of Public Policy. The Fall Local Government Health and Wellness Forum—Creating Healthy Communities explored how local governments can create healthy communities and enable healthy living through wellness programs, and community partnerships to enable "Healthy Eating, Active Living."

Engagement strategies included coordinating ABAG's Seventh Annual Growing Smarter Together Awards to recognize the leadership and best practices of Bay Area local governments and agencies. The award winners were showcased at ABAG's Spring General Assembly in five categories. The best practice efforts of the Growing Smarter Together awardees were documented by the Communication Department in a special DVD, currently on view at [www.abag.ca.gov/smarter.html](http://www.abag.ca.gov/smarter.html), with video highlights of past recipients. Their achievements in planning, community revitalization, and community partnerships and preservation and protections of the environment are featured.

A range of visibility strategies, developed and implemented by the Communications Group, included media outreach on Plan Bay Area Workshops, the Bay Trail Project achievements (Bay Trail Trekker and New Bay Trail maps), and the Estuary Partnership and their 11 Biennial Conference *20/20 Vision—Past Reflections, Future Directions*. Meeting coordination, marketing, outreach, project management and administration for energy programs (*Energy Upgrade Marketing and Outreach* and support for Bay REN), and Legislative Roundtable and Receptions were facilitated. Multi-agency coordinating team support was also provided for development of *One Bay Area* website and Plan Bay Area outreach materials.

Updates on ABAG initiatives, programs and services, especially the development of Plan Bay Area and regional research, were consistently provided through print and online publications such as *Service Matters* and *Risk Matters*, with the ABAG website news section featuring the latest agency trends and events. Media coverage included articles and TV and radio interviews on regional perspectives on jobs-housing-economy, earthquake/hazard mitigation, and regional resiliency, with op-eds on Plan Bay Area developed and placed in the Mercury News, Contra Costa Times, Fairfield Daily Republic, Marin Independent Journal, Livermore Independent, and articles in San Francisco Chronicle and Business Times. Outreach support via press releases and media interviews (radio and television) on SCS, Plan Bay Area, risk management, Bay Trail trekking and Water Trail was provided to local communities, elected officials and business leaders. Time communications were disseminated through extensive online news alerts providing links to conference proceedings, best practice case studies and briefings, and presentation audio archives.

*In fiscal year 2015 Communications will:*

1. Implement Plan Bay Area outreach and public engagement strategies to move forward local government land use priorities like Priority Development Areas.
2. Further outreach to ABAG delegates, including fellow local government officials and staff, to facilitate better use of ABAG programs and services and collaborate with communities to implement land use and transportation priorities.
3. Facilitate increased access to ABAG programs, projects, initiatives and resources, through comprehensive update of website and use of social media.

## **San Francisco Bay Restoration Authority**

The San Francisco Bay Restorations Authority (Restoration Authority) is a regional agency with a Governing Board made up of local elected officials and the Executive Officer of the California State Coastal Conservancy. Its purpose is to raise and allocate local resources for the restoration, enhancement, protection, and enjoyment of wetlands and wildlife habitat in San Francisco Bay and along its shoreline. The Restoration Authority was created by the California Legislature in 2008 to find solutions to the need for new, local funding.

The Legislature has given the Restoration Authority the unique capacity to raise funds from local sources throughout the Bay Area and the oversight capacity to ensure transparency and prevent waste. Its purpose is restoration, not regulation. It is designed to deliver essential local funding to restoration projects developed by others.

During FY 2014, the Restoration was able to obtain a major grant from the ABAG Finance Authority to develop a preferred methodology for obtaining voter support for a secure funding base, to gauge the feasibility of a ballot measure and to continue public outreach to better inform the public of the needs of the Bay and Delta, the restoration and preservation efforts needed and the role of the Restoration Authority in meeting those needs.

*In fiscal year 2015 the Authority will:*

1. Continue to seek grant and other funding to advance restoration and preservation of the Bay.
2. Continue to update a strategic prioritization of preservation and restoration projects.
3. Continue public outreach to better inform the public the needs of the Bay and Delta, the restoration and preservation efforts needed and the role of the San Francisco Bay Restoration Authority in meeting those needs.
4. Evaluate support for a November 2016 regional parcel tax measure.

## **CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT**

This financial report is intended to provide citizens, taxpayers, creditors, and stakeholders with a general overview of the Association's finances. Questions about this report may be directed to the ABAG Finance Department, at 101 Eighth Street, Oakland, California 94607.

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ASSOCIATION OF BAY AREA GOVERNMENTS  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and Investments (Note 2):					
Cash and Cash Equivalents	\$7,249,025	\$31,910	\$351,411	\$7,632,346	\$55,006
Receivables:					
Federal, State and Local Grants	4,873,774	496	12,114	4,886,384	50
Interest	1,250		157	1,407	
Prepaid Expenses and Other	193,675	2,153		195,828	
<b>Total Current Assets</b>	<b>12,317,724</b>	<b>34,559</b>	<b>363,682</b>	<b>12,715,965</b>	<b>55,056</b>
<b>Noncurrent Assets</b>					
Capital Assets, Net of Accumulated Depreciation (Note 3)	492,289			492,289	
<b>Total Assets</b>	<b>12,810,013</b>	<b>34,559</b>	<b>363,682</b>	<b>13,208,254</b>	<b>55,056</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts Payable	2,750,132		6,616	2,756,748	45,465
Compensated Absences (Note 1E)	396,463			396,463	
Other Accrued Liabilities	152,938			152,938	
Current Portion of Long-Term Obligations (Note 4)	68,976			68,976	
Unearned Revenue	5,395,155			5,395,155	
<b>Total Current Liabilities</b>	<b>8,763,664</b>		<b>6,616</b>	<b>8,770,280</b>	<b>45,465</b>
<b>Noncurrent Liabilities</b>					
Compensated Absences, Noncurrent (Note 1E)	192,003			192,003	
Net OPEB Obligation (Note 9)	599,976			599,976	
Long-Term Obligations, Net of Current Portion (Note 4)	366,978			366,978	
<b>Total Noncurrent Liabilities</b>	<b>1,158,957</b>			<b>1,158,957</b>	
<b>Total Liabilities</b>	<b>9,922,621</b>		<b>6,616</b>	<b>9,929,237</b>	<b>45,465</b>
<b>NET POSITION (Note 7)</b>					
Net Investment in Capital Assets	56,335			56,335	
Restricted			201,419	201,419	9,591
Unrestricted	2,831,057	34,559	155,647	3,021,263	
<b>Total Net Position</b>	<b>\$2,887,392</b>	<b>\$34,559</b>	<b>\$357,066</b>	<b>\$3,279,017</b>	<b>\$9,591</b>

See accompanying notes to basic financial statements

ASSOCIATION OF BAY AREA GOVERNMENTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
<b>PROGRAM REVENUES</b>					
Operating Grants and Contributions:					
Grants	\$21,529,386			\$21,529,386	\$90,000
Subtotal	21,529,386			21,529,386	90,000
Charges for Services					
Reimbursements	5,549,477	\$496	\$29,170	5,579,143	
Other	31,080			31,080	
Subtotal	5,580,557	496	29,170	5,610,223	
Total Program Revenues	27,109,943	496	29,170	27,139,609	90,000
<b>PROGRAM EXPENSES</b>					
Salaries and Related Benefits	12,023,915			12,023,915	
Consultant Services	14,587,693	5,824	79,896	14,673,413	80,465
Equipment, Maintenance and Supplies	112,746			112,746	
Outside Printing Costs	58,893			58,893	
Conference and Meeting Costs	205,227		300	205,527	
Depreciation (Note 3)	162,817			162,817	
Building Maintenance	236,207			236,207	
Postage	25,004			25,004	
Insurance	160,661			160,661	
Telephone	72,108			72,108	
Utilities	140,641			140,641	
Committee	70,125			70,125	
Other	506,918		26,922	533,840	
Interest Expense	67,939			67,939	
Total Program Expenses	28,430,894	5,824	107,118	28,543,836	80,465
Net Program Income (Loss)	(1,320,951)	(5,328)	(77,948)	(1,404,227)	9,535
<b>GENERAL REVENUES</b>					
Membership Dues	1,763,805			1,763,805	
Donations - Unrestricted	185,138		49,325	234,463	50
Interest Income	11,304	29	927	12,260	6
Total General Revenues	1,960,247	29	50,252	2,010,528	56
Change in Net Position	639,296	(5,299)	(27,696)	606,301	9,591
Net Position-Beginning	2,248,096	39,858	384,762	2,672,716	
Net Position-Ending	\$2,887,392	\$34,559	\$357,066	\$3,279,017	\$9,591

See accompanying notes to basic financial statements

ASSOCIATION OF BAY AREA GOVERNMENTS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Grant receipts	\$22,682,729		\$3,652	\$22,686,381	\$90,000
Receipts from customers and members	7,498,420		78,495	7,576,915	
Payments to contractors and members	(15,762,889)		(106,507)	(15,869,396)	(35,000)
Payments to employees	(12,056,425)			(12,056,425)	
Payments to committees	(70,125)			(70,125)	
Other receipts (payments)	31,080			31,080	
Net cash flows from operating activities	<u>2,322,790</u>		<u>(24,360)</u>	<u>2,298,430</u>	<u>55,000</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Repayment of long-term obligations	(110,431)			(110,431)	
Interest paid	(67,939)			(67,939)	
Net cash flows from capital and related financing activities	<u>(178,370)</u>			<u>(178,370)</u>	
<b>CASH FLOWS FROM INVESTING AND RELATED FINANCING ACTIVITIES</b>					
Interest received	11,792	\$29	955	12,776	6
Net cash flows	2,156,212	29	(23,405)	2,132,836	55,006
Cash and cash equivalents at beginning of year	5,092,813	31,881	374,816	5,499,510	
Cash and cash equivalents at end of year	<u>\$7,249,025</u>	<u>\$31,910</u>	<u>\$351,411</u>	<u>\$7,632,346</u>	<u>\$55,006</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>					
Net Program Income (Loss)	(\$1,320,951)	(\$5,328)	(\$77,948)	(\$1,404,227)	\$9,535
<b>Adjustments to reconcile income (loss) to cash flows from operating activities:</b>					
Depreciation	162,817			162,817	
Membership dues	1,763,805			1,763,805	
Donations - unrestricted	185,138		49,325	234,463	50
Interest	67,939			67,939	
<b>Change in assets and liabilities:</b>					
Receivables	646,270	(496)	3,652	649,426	(50)
Prepaid expenses and other assets	(85,158)	5,824		(79,334)	
Accounts payable	434,319		611	434,930	45,465
Compensated absences	34,234			34,234	
Other accrued liabilities	(5,952)			(5,952)	
Unearned revenue	507,073			507,073	
Net OPEB obligation	(66,744)			(66,744)	
Net cash flows from operating activities	<u>\$2,322,790</u>		<u>(24,360)</u>	<u>\$2,298,430</u>	<u>\$55,000</u>

See accompanying notes to basic financial statements

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Association of Bay Area Governments (the Association) was established in 1961 by agreement among its members—counties and cities of the San Francisco Bay Area pursuant to the Joint Exercise of Powers Act, California Government Code Section 6500, et sq. The Association is a separate entity from its members and its purpose is to serve as a permanent forum to discuss and study matters of mutual interest and concern to member jurisdictions, develop policies and action plans, and provide services and undertake actions addressing such matters.

The Association is governed by a General Assembly comprised of elected officials from member cities and counties. The General Assembly appoints an Executive Board to carry out policy decisions, approve the annual budget, appoint an Executive Director, and report to the General Assembly.

**A. Reporting Entity**

The Association is a membership organization that provides a variety of planning and other service programs for its members.

The accompanying basic financial statements present the operations of the Association, which is the primary activity, along with the financial activities of its component units, which are entities for which the Association is financially accountable. Although they are separate legal entities, they are presented in the basic financial statements as either a blended component unit or discretely presented component unit.

**Blended Component Units**

Blended component units are in substance part of the Association's operations and are reported as an integral part of the Association's financial statements. The following component units are blended and are described below:

- ABAG Finance Corporation (Corporation) is a non-profit public benefit corporation created on June 24, 1985 that aids members in obtaining financing by acting as a conduit in the sponsorship of credit pooling arrangements. Participating members issue debt, leases or certificates of participation (COPs) that are pooled as a single issue by the Corporation. Members' payments are pooled to repay the debt and the assets leased become the property of the member when it has paid off its debt obligation.

The Corporation is governed by a sub-committee of the Association's Executive Board, which establishes financing policies and approves each credit pooling arrangement.

- BALANCE Foundation (BALANCE) is a non-profit, tax-exempt corporation created on September 22, 1987, established to assist Bay Area governments in obtaining funds to study, analyze and resolve regional issues. BALANCE is governed by a Board of Directors whose appointment is controlled by the Association.

**ASSOCIATION OF BAY AREA GOVERNMENTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Discretely Presented Component Unit**

A component unit is a legally separate organization for which elected officials of the primary entity are financially accountable. It can also be an organization whose relationship with the primary entity is such that exclusion would cause the reporting entity's financial statement to be misleading or incomplete. The Association has one discretely presented component unit, San Francisco Bay Restoration Authority.

- The San Francisco Bay Restoration Authority (Restoration Authority) was created by a State legislation on September 30, 2008 to raise and allocate resources for the restoration, enhancement, protection, and enjoyment of wetlands and wildlife habitat in the San Francisco Bay and along its shoreline. The Restoration Authority is governed by a board that is appointed by the Association, yet is composed of members that are different from the Association's board.

Additional financial information for each component unit can be obtained at the entity's administrative offices, 101 Eighth Street, Oakland, CA 94607-4707.

**Other Affiliated Entities**

Over the past two decades, the Association created a number of public purpose entities to offer various service programs. The financial activities of the entities are not included in these financial statements because these entities are not controlled by the Executive Board and the composition of their membership may be different than that of the Association. However, the Association has agreements with each of these entities to provide management, administrative and other support services. These entities and the service programs offered are described below:

- ABAG Pooled Liability Assurance Network (PLAN) Corporation provides risk management, liability coverage, claims management and loss prevention services for participating members of PLAN. The Association acts as PLAN's trustee, providing promotional, administrative, and management support. PLAN paid the Association \$2,469,657 for these services and \$190,399 for contract services in the fiscal year ended June 30, 2014.
- ABAG Finance Authority for Non-profit Corporations (FAN) assists non-profit corporations in obtaining financing. The Association assists FAN in issuing tax-exempt debt. It also provides administrative and management support. FAN paid the Association \$1,042,330 for these services and \$155,946 for contract services in the fiscal year ended June 30, 2014.
- ABAG Comp Shared Risk Pool (SHARP) provides workers compensation coverage and claims management for participating members. The Association provides risk management, administrative, and management support. SHARP paid the Association \$122,401 for these services and \$31,096 for contract services in the fiscal year ended June 30, 2014.
- ABAG Publicly Owned Energy Resources (POWER) provides gas energy aggregation services to participating members. The Association acts as POWER'S trustee, providing promotional, administrative and management support. POWER paid the Association \$370,093 for these services and \$11,025 for contract services in the fiscal year ended June 30, 2014.

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***B. Basis of Presentation***

The Association's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Standards require that the financial statements described below be presented.

***Government-wide Statements:*** The Statement of Net Position and the Statement of Activities display information about the primary reporting entity (the Association). These statements include the financial activities of the overall Association. Eliminations have been made to minimize the double counting of internal activities. These statements display the *business-type activities* of the Association. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Association's business-type activities. Direct expenses are those that are specifically associated with a program or function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

***C. Major Funds***

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total. The Association's major funds are presented separately in the fund financial statements.

The Association reported all its enterprise funds as major funds in the accompanying financial statements:

Association Fund – this fund accounts for revenues and expenses of the Association.

ABAG Finance Corporation Fund – this fund accounts for revenues and expenses of the ABAG Finance Corporation.

BALANCE Foundation Fund – this fund accounts for revenues and expenses of the Bay Area Leaders Addressing the Challenge of the Economy and Environment Foundation.

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***D. Basis of Accounting***

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Non-exchange transactions, in which the Association gives or receives value without directly, receiving or giving equal value in exchange, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Expenditures in excess of reimbursement are recorded as receivables if allowable under the grant, while excess reimbursements are recorded as unearned revenues.

The Association offers a number of service programs that are funded under cost-reimbursement or fee-for-service basis. Discretionary funds, comprised primarily of membership dues, amount to about 6.1% of total revenues. Discretionary funds are used to cover certain management and administrative expenses and may occasionally be allocated to meet local match requirements as stipulated in certain grant contracts. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Association's policy is to first apply restricted grant resources to such programs, followed by unrestricted revenues if necessary.

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

***E. Compensated Absences***

Compensated absences comprise vacations and are recorded as an expense when earned. The accrued liability for unused compensated absences is computed using current employee pay rates. Sick pay does not vest and is not accrued.

The changes in the compensated absences were as follows:

Balance June 30, 2013	\$554,232
Additions	(245,215)
Payments	279,449
Balance June 30, 2014	\$588,466
Due within one year	\$396,463

***F. Estimates***

The Association's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosure of contingent liabilities to prepare these financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Actual results could differ from those estimates.

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 2 - CASH AND INVESTMENTS**

**A. Carrying Amount and Fair Value**

Cash and investments comprised the following at June 30, 2014:

	Association and other blended component units	SF Bay Restoration Authority	Total
<i>Local Agency Investment Fund</i>	\$2,462,472		\$2,462,472
<i>Cash:</i>			
Cash in banks	5,169,554	\$55,006	5,224,560
Cash on hand	320		320
 Total Cash and Investments	<u>\$7,632,346</u>	<u>\$55,006</u>	<u>\$7,687,352</u>

The Association pools cash from all sources and all funds so that it can be invested at the maximum yield, consistent with the principles of safety and liquidity. Individual funds can make expenditures at any time. Investments are carried at fair value.

**B. Investments Authorized by the Association**

The Association's Investment Policy and the California Government Code allow the Association to invest in the following, within the stated guidelines:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	1 year	N/A	None	None
U.S. Agency Securities	1 year	N/A	None	None
Bankers' Acceptances	180 days	N/A	40%	30%
Commercial Paper	180 days	A1/P1	10%	10%
Investment Agreements	On Demand	N/A	None	None
Repurchase Agreements	15 days	N/A	10%	None
Certificates of Deposit	1 year	N/A	10%	None
Negotiable Certificates of Deposit	1 year	N/A	30%	None
Money Market Mutual Funds	On Demand	Top rating category	20%	10%
California Local Agency Investment Fund	On Demand	N/A	\$50 million/acct	\$50 million/acct
Investment Trust of California (CalTRUST)	On Demand	N/A	None	None

**ASSOCIATION OF BAY AREA GOVERNMENTS  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2014**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**C. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of the Association’s investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. The sensitivity of the fair values of the Association’s investments to market interest rate fluctuations is presented by the following maturity schedule of the Association’s cash and investments:

	12 Months or less
Local Agency Investment Fund	\$2,462,472
Cash in banks	5,224,560
Cash on hand	320
Total Cash and Investments	\$7,687,352

As of year-end, the weighted average maturity of the investments in the LAIF investment pool is approximately 232 days.

**D. Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Association may not be able to recover its deposits or collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its agent having a fair value of 110% to 150% of the Association’s cash on deposit. All of the Association’s deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the Association’s name.

**E. Local Agency Investment Fund**

The Association is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Association reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

Under California Government Code, LAIF is allowed greater investment flexibility than the Association is permitted. As such, LAIF’s investment portfolio may contain investments not otherwise permitted for the Association. For funds invested in LAIF, LAIF’s investment policy overrides the Association’s investment policy.

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**F. Statement of Cash Flows**

For purposes of the statement of cash flows, the Association considers all highly liquid investments, including restricted investments but excluding cash with fiscal agents, with a maturity of three months or less when purchased to be cash equivalents.

**NOTE 3 - CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Association's policy is to capitalize all assets with costs exceeding \$5,000.

Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation expense is calculated on the straight-line method over the estimated useful lives of assets, which are as follows:

Facilities and improvements	5 to 30 years
Furniture and equipment	3 to 10 years
Vehicles	5 years
Capitalized software	3 to 6 years

Capital asset balances and transactions as of June 30 are summarized below:

	June 30, 2013	Additions	Retirements	June 30, 2014
Capital assets being depreciated:				
Facilities and improvements	\$3,604,147			\$3,604,147
Furniture and equipment	1,059,926		\$2,688	1,057,238
Vehicles	57,652			57,652
Capitalized software	690,704			690,704
Total capital assets being depreciated	5,412,429		2,688	5,409,741
Less accumulated depreciation for:				
Facilities and improvements	(3,386,718)	(\$44,351)		(3,431,069)
Furniture and equipment	(630,517)	(110,199)	(2,688)	(738,028)
Vehicles	(57,652)			(57,652)
Capitalized software	(682,436)	(8,267)		(690,703)
Accumulated depreciation	(4,757,323)	(162,817)	(2,688)	(4,917,452)
Total	\$655,106	(\$162,817)		\$492,289

**ASSOCIATION OF BAY AREA GOVERNMENTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 4 - LONG TERM OBLIGATION**

**A. Additions and Retirements**

The Association's obligation issues and transactions are summarized below and discussed in detail thereafter:

	<u>Balance June 30, 2013</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
<b>BUSINESS-TYPE ACTIVITY</b>				
<b>Seismic Retrofit Project</b>				
0% Interest rate, due 6/30/2014	\$45,462	(\$45,462)		
<b>Office Improvement Project</b>				
Variable rate + 1%, due 1/1/2020	<u>500,923</u>	<u>(64,969)</u>	<u>\$435,954</u>	<u>\$68,976</u>
<b>Total</b>	<u>\$546,385</u>	<u>(\$110,431)</u>	<u>\$435,954</u>	<u>\$68,976</u>

**B. Line of Credit**

In July 2009, the Association signed a \$2 million line of credit arrangement with a bank. In fiscal year 2014, the Association renewed the line of credit to mature on February 28, 2016. Interest is at a variable rate that shall not be less than 4.00% annually and is to be paid monthly. Pursuant to its agreement with the bank the Association assigned its future rents and revenues and pledged its interest in the building as collateral. No borrowings were made on the line of credit during fiscal year 2014.

**C. Seismic Retrofit Project**

In fiscal year 2007, the Association entered into an agreement with the Regional Administrative Facility Corporation (RAFC) with an original balance of \$283,400 to make repayments on the seismic retrofit project, which began in fiscal year 2008. The project was completed in July 2008. In fiscal year 2011, RAFC granted the Association approval to pay the balance of the agreement by June 30, 2014. The balance was paid off during fiscal year 2014.

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 4 - LONG TERM OBLIGATION (Continued)**

***D. Installment Sales Agreement***

In January 2010, the Association entered into an installment sale agreement with ABAG Finance Authority for Non-profit Corporations (Authority) in the amount of \$700,000, whereas, the Authority financed various office improvement projects to the Association. Principal and interest payments are paid monthly beginning February 1, 2010 until January 1, 2020. The agreement bears a variable interest at the average annual Local Agency Investment Fund's (LAIF) rate plus one percent (1.244% as of June 30, 2014). As of June 30, 2014, the installment agreement obligations, based on the June 30, 2014 interest rate, were as follows:

For the Year Ending June 30	Principal	Interest	Total
2015	\$68,976	\$5,354	\$74,330
2016	73,231	4,506	77,737
2017	77,747	3,607	81,354
2018	82,543	2,652	85,195
2019	87,634	1,639	89,273
2020	45,823	563	46,386
Total	<u>\$435,954</u>	<u>\$18,321</u>	<u>\$454,275</u>

**NOTE 5 - WINDEMERE RANCH ASSESSMENT DISTRICT SPECIAL ASSESSMENT DEBT**

On behalf of Contra Costa County, the Association formed the Windemere Ranch Assessment District (District) in an unincorporated area of that County. The District issued special assessment debt to fund infrastructure improvements as part of the development of residential housing in the District.

These debt issues are repayable out of special assessments on the parcels in the District, and are secured by liens on each parcel. The Association has no obligation for the repayment of the District's assessment debt, and accordingly, does not record this debt in its financial statements.

The outstanding balance of each of the District's debt issues has been refunded by new debt issued on June 26, 2007 by the ABAG Financing Authority for Nonprofit Corporation. The Association has no obligation for the repayment of these new revenue bonds, therefore has not recorded this debt in its financial statements.

In July 2014, the outstanding balance of each of the District's debt issues from June 2007 was authorized by the Association's Board to be refinanced in fiscal year 2014-15 to provide for savings of over \$2 million. The new debt is to be issued by the ABAG Financing Authority for Nonprofit Corporation. The Association has no obligation for the repayment of these new revenue bonds, therefore it will not record this debt in its financial statements when issued.

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 6 - CONDUIT FINANCING PROGRAMS FOR MEMBERS**

The Association assists members and other borrowers in obtaining financing through the issuance of revenue bonds, special assessment debt, certificates of participation in lease revenues and in straight leasing arrangements.

The underlying liability for the repayment of each of these issues rests with the borrower participating in that issue, and not with the Association, which acts only as a conduit in pooling each issue. For that reason, the Association has not recorded a liability for these issues. The Association sponsored the following outstanding conduit debt balances that were payable by their respective borrowers at June 30:

Type of Financing	Unpaid balance - June 30	
	2014	2013
Revenue Bonds	\$164,930,000	\$170,390,000
Certificates of Participation	14,920,000	16,485,000
Total	<u>\$179,850,000</u>	<u>\$186,875,000</u>

**NOTE 7 – NET POSITION**

Net Position is the excess of all the Association’s assets over all its liabilities, regardless of fund. The Association’s Net Position is divided into the three captions described below:

*Net Investment in Capital Assets* is the current net book value of the Association’s capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Position which is restricted as to use by the terms and conditions of donations received by the Association. As of June 30, 2014, the entire amount in Restricted Net Position is restricted for the support of the Tranter-Leong Internship Program.

*Unrestricted* describes the portion of the Net Position which may be used for any Association purpose.

**ASSOCIATION OF BAY AREA GOVERNMENTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 8 - PENSION PLAN**

All Association employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), a cost-sharing, multiple-employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The Association's employees participate in the Miscellaneous Employee Plan. Benefit provisions under the Plan are established by State statute and Association resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CALPERS. The Plan's provisions and benefits in effect at June 30, 2014, are summarized as follows:

Hire Date	<u>Miscellaneous</u>	<u>Miscellaneous New Tier</u>
	Prior to January 1, 2013	After January 1, 2013
Benefits vesting schedule	5 years service	5 years service
Benefits payments	Monthly for life	Monthly for life
Retirement age	50	62
Monthly benefits, as a % of annual salary	2 % - 2.5%	2%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	23.429%	6.25%

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the Association's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the Association must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The Association does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses a market related value method of valuing the Plan's assets. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually. An investment rate of return of 7.50% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years.

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 8 - PENSION PLAN (Continued)**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$1,980,202	100%	\$0
6/30/2013	1,980,989	100%	0
6/30/2014	1,920,771	100%	0

As required by State law, effective July 1, 2005, the Association's Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERS to join a new State-wide pool. One of the conditions of entry to the pool was that the Association true-up any unfunded liabilities in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The Association satisfied its Miscellaneous Plan's unfunded liability of \$4,683,356 agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 6 years.

The State-wide pool's actuarial value and funding progress over the past three years are set forth below at the actuarial valuation date of June 30:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2010	\$1,972,910,641	\$1,603,482,152	\$369,428,489	81.3%	\$352,638,380	104.8%
2011	2,135,350,204	1,724,200,585	411,149,619	80.7%	350,121,750	117.4%
2012	2,254,622,362	1,837,489,422	417,132,940	81.5%	339,228,272	123.0%

The Association's Miscellaneous Plan represents approximately 2.0% of the State-wide pool for the years ended June 30, 2012, 2011, and 2010, respectively, based on covered payroll for \$6,929,295, \$6,669,679, and \$6,714,245.

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA, 94229-2709.

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 9 – POST EMPLOYMENT HEALTH CARE BENEFITS**

During fiscal year 2009, the Association implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB).

By Board resolution and through agreements with its labor unit, the Association provides certain health care benefits for retired employees (spouse and dependents are not included) under third-party insurance plans. A summary of these benefits is shown below:

**Benefit Summary:**

Eligibility	Service or disability retirement Age 50 & 5 years service Disability retire directly from ABAG under CalPERS	
Benefit: Tier 1 Hired < 7/1/2009	Retired < 9/1/94- 100% of Kaiser single basic premium Retired ≥ 9/1/94 -100% of Kaiser 2-party basic premium Same cap pre- & post-65 PEMHCA administration fee paid by ABAG	
Tier 2 Hired ≥ 7/1/2009	PEMHCA minimum PEMHCA administration fee paid by ABAG	
Medical After Retirement (MARA)	Tier 1 One time only option to enroll Must opt out of defined benefit medical plan ABAG contributes PEMHCA minimum if opt in MARA	Tier 2 Must enroll in MARA ABAG contributes \$100/month to an individual MARA account for each active employee MARA not included in the OPEB evaluation
Medicare B Reimbursement <sup>1</sup>	Retired < 9/1/94 - 100% for retiree  Retired ≥ 9/1/94 -100% for retiree and spouse	None
Surviving Spouse of Retiree	Same benefit continues to surviving spouse if retiree elects CalPERS survivor annuity	

<sup>1</sup> Tier 1 reflects plan amendment. Pre-amendment benefit does not include Medicare B Reimbursement.

As of June 30, 2014, approximately 26 participants were eligible to receive benefits.

**ASSOCIATION OF BAY AREA GOVERNMENTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 9 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**Funding Policy and Actuarial Assumptions**

The annual required contribution (ARC) was determined as part of a June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.61% investment rate of return, (b) 3.25% projected annual salary increase, include inflation and (c) 5.0 – 8.9% health inflation increase. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The Association's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 24 year closed amortization period.

In accordance with the Association's budget, the annual required contribution (ARC) is to be funded throughout the year as a percentage of payroll. Concurrent with implementing Statement No. 45, the Association's Board passed a resolution to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administered by CalPERS, and is managed by an appointed board not under the control of Association Board. This Trust is not considered a component unit by the Association and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 9 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**Funding Progress and Funded Status**

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2014, the Association contributed \$893,739 which represented 13.37% of the \$6,684,000 of covered payroll. As a result, the Association has recorded the Net OPEB Obligation, the difference between the ARC and actual contributions, as presented below:

Net OPEB Obligation June 30, 2013	<u>\$666,720</u>
Annual required contribution (ARC)	869,000
Interest on net OPEB obligation	49,000
Adjustment to annual required contribution	<u>(91,005)</u>
Annual OPEB cost	<u>826,995</u>
Contributions made:	
Contributions to CERBT	666,720
Association's portion of current year premiums paid	<u>227,019</u>
Total contributions	<u>893,739</u>
Change in net OPEB Liability	<u>(66,744)</u>
 Net OPEB Obligation June 30, 2014	<u><u>\$599,976</u></u>

The Net OPEB Obligation is included in the other accrued liabilities balance in the Statement of Net Position.

The Plan's annual required contributions and actual contributions for the year ended June 30, 2014 are set forth below:

<u>Fiscal Year</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Actual Contribution</u>	<u>Percentage of OPEB Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$779,640	\$789,924	101%	\$609,561
6/30/2013	857,554	800,395	93%	666,720
6/30/2014	826,995	893,739	108%	599,976

**ASSOCIATION OF BAY AREA GOVERNMENTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 9 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)**

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the past actuarial studies are presented below:

Valuation Date	Actuarial		Unfunded Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (overfunded) Actual Liability as % of Covered Payroll
	Value of Assets	Accrued Liability				
1/1/2007	\$0	\$4,128,000	(\$4,128,000)	0.00%	\$6,306,000	65.5%
6/30/2009	0	4,346,000	(4,346,000)	0.00%	6,828,000	63.6%
6/30/2011	1,226,000	6,684,000	(5,458,000)	18.34%	6,684,000	81.7%

**NOTE 10 – RELOCATION OF HEADQUARTERS**

The Association together with the Metropolitan Transportation Commission (MTC) will be relocated to San Francisco in late 2015 or early 2016. The colocation will enhance planning and research activity collaboration between the two agencies.

In February 2013, the Association entered into a Memorandum of Understanding (MOU) with the Bay Area Headquarters Authority (BAHA), the owner of the property in San Francisco. The key component of the MOU is the real estate exchange between the Association and BAHA wherein the Association grants to BAHA its entire condominium interest in the Joseph P. Bort MetroCenter, 101 8<sup>th</sup> Street Oakland (MetroCenter Condo) and BAHA grants to the Association a condominium interest to be created at 375 Beale Street, San Francisco (ABAG Condo). The MOU also spells out physical elements of the ABAG Condo, exchange requirements, ABAG's relocation expenses, use and occupancy of the ABAG Condo, a cap on ABAG's Common Expenses for the ABAG Condo, limitations on disposition of ABAG Condo, and handling of casualty events.

As part of the exchange requirements, the Association shall provide \$4.2 million to BAHA for tenant improvements to the ABAG Condominium, solely from funds provided by MTC to the Association in accordance with the funding framework approved by MTC in June 2014. Under the funding framework, the Association acts as a conduit for the transfer of funds from MTC to BAHA. The transfers occur between FY 2013-14 to 2020-21. The fund transfer for FY 2013-14 in the amount of \$400 thousand was made in July 2014.

**NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES**

The Association participates in Federal and State grant programs. These programs have been audited by the Association's independent accountants through the fiscal year ended June 30, 2014, in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Association expects such amounts, if any, to be immaterial.

**ASSOCIATION OF BAY AREA GOVERNMENTS**

**SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2014**

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**ASSOCIATION OF BAY AREA GOVERNMENTS**

**SINGLE AUDIT REPORT  
For The Year Ended June 30, 2014**

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**ASSOCIATION OF BAY AREA GOVERNMENTS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2014**

**SECTION I—SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?        Yes    X    No
- Significant deficiency(ies) identified?        Yes    X           None Reported

Noncompliance material to financial statements noted?        Yes    X    No

**Federal Awards**

Type of auditor’s report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weakness(es) identified?        Yes    X    No
- Significant deficiency(ies) identified?        Yes    X           None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?    X    Yes        No

Identification of major programs:

<b>CFDA#(s)</b>	<b>Name of Federal Program or Cluster</b>
<u>15.616</u>	<u>Clean Vessel Act Program</u>
<u>20.205</u>	<u>Highway Planning and Construction Grant</u>
<u>66.456</u>	<u>National Estuary Program</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?    X    Yes        No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated November 9, 2014 which is an integral part of our audits and should be read in conjunction with this report.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Our audit disclosed the following findings and questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

**Finding SA 2014-01: Timely Submittal of Required Reports**

**CFDA Number:** 20.205, 66.456  
**CFDA Title:** Highway Planning and Construction  
National Estuary Program  
**Name of Federal Agency:** U.S. Department of Transportation  
U.S. Environmental Protection Agency  
**Name of pass-through Entity:** Metropolitan Transportation Commission

**Criteria:** Section 7.0 “Reports and Products Deliverable” of the Interagency Agreement between the Metropolitan Transportation Commission and the Association of Bay Area Governments (Association) for fiscal year 2013-2014 states progress reports are to be submitted no later than 15 days after the end of each quarter. The “Programmatic Conditions” of the Environmental Protection Agency (EPA) agreement state biannual progress reports are to be submitted on the 30<sup>th</sup> day of October and April during the lifetime of the project. Evidence of timely submission of progress reports should be retained by the Association.

**Condition:** During our testing of progress reports, we noted the following:

- In regards to the Highway Planning and Construction grant, no audit evidence existed of the progress reports for the quarters ended December 31, 2013 being submitted within the required 15 days after the end of each quarter. Furthermore, the report for the quarter ended March 31, 2014 was not submitted until May 6, 2014, which is 20 days after the required submittal date.
- For the National Estuary Program Grant, there was no audit evidence of the required biannual reports for fiscal year 2013-2014 being submitted on October 30, 2013 and April 30, 2014, as required by the grant agreement. Association staff and the EPA Project Manager were unable to find documentation to show when the reports were submitted. Progress reports for fiscal year 2013-2014 were resubmitted to EPA on July 25, 2014.

**Effect:** The Association is not in compliance with the grant agreements. Lack of compliance with the agreement could have a potential impact on future funding sources.

**Cause:** Per inquiry with staff, the Association and the Metropolitan Transportation Commission were continuously revising the due dates for the progress reports through meetings and other communications, resulting in a delay in submitting the requisite reports. Also, the Association was unable to provide any documentation illustrating when the reports for the National Estuary Program were submitted.

**Recommendation:** The Association should develop procedures to comply with all the reporting requirements of the federal grant and maintain evidence of submission accordingly.

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### Finding SA 2014-01: Timely Submittal of Required Reports (Continued)

##### **View of Responsible Officials and Planned Corrective Actions:**

- **Name of Contact Person:** Susan Hsieh, Assistant Finance Director, Duane Bay, Assistant Planning Director, and Paula Trigueros, Contract Manager.
- **Corrective Action Plan:**

**Highway Planning and Construction Grant:** The Association will ensure progress reports are submitted to the Metropolitan Transportation Commission (MTC) in a timely manner going forward. The Planning Department has implemented a new reporting process that personnel involved in preparing the progress reports will coordinate accordingly to meet the reporting deadline. In addition, transmittal messages will be properly filed. MTC confirmed receipt of the December 31, 2013 progress report although the transmittal message was not kept by the Planning Department. The Association will be in compliance with the reporting requirements with the implementation of these new procedures.

**National Estuary Program Grant:** Offices of the San Francisco Estuary Partnership are located at the San Francisco Bay Regional Water Quality Control Board, our second implementing partner together with the Association. The Water Board has a new email policy that began about one year ago wherein emails are only held for 90 days and then are erased. However, all reports have been submitted and approved by our EPA Project Manager who also sits on our Implementation Committee (IC) and is updated on our progress at quarterly IC meetings and in frequent meetings.

In the future we will keep PDF copies of our email transmittals of progress reports due April 30 and October 30 so that we have documentation of when the reports were submitted.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

### Finding SA2014-02 – Certification of Non-Suspension/Debarment

**CFDA number:** 20.205, 15.616  
**CFDA Title:** Highway Planning and Construction  
Clean Vessel Act  
**Name of Federal Agency:** U.S. Department of Transportation  
U.S. Department of the Interior  
**Name of Pass-Through Entity:** Metropolitan Transportation Commission  
California Department of Boating and Waterways

**Criteria:** When a non-federal entity enters into a covered transaction with a vendor, the non-federal entity must verify the vendor is not suspended or debarred or otherwise excluded. Furthermore, in regards to the Highway Planning Construction grant, Appendix D of the Interagency Agreement between the Metropolitan Transportation Commission and the Association of Bay Area Governments (Association) states that prior to executing a contract, the Association must obtain a certification from contractors to ensure the entity is not suspended or debarred or otherwise excluded.

**Condition:** During the audit, the Association was unable to provide documentation demonstrating it obtained certifications from vendors prior to entering into contracts with them, ensuring they were not debarred or suspended from any Federal department or agency. It also was unable to produce evidence the Association verified a vendor was not debarred and/or suspended, apart from obtaining certifications, prior to signing a contract with the party.

**Effect:** The Association is at risk of noncompliance due to the increased risk the vendors could be debarred or suspended. The Association is also not in compliance with the Interagency Agreement.

**Cause:** The Association did not retain documentation to illustrate it verified the vendors were not debarred or suspended prior to the award of a contract.

**Recommendation:** We recommend the Association ensure all current and future vendors funded by Federal grants are not debarred or suspended from participating in Federal grants. It must also maintain documentation illustrating such verification occurred prior to signing contracts with vendor.

#### **View of Responsible Officials and Planned Corrective Actions**

- **Name of contact person:** Susan Hsieh, Assistant Finance Director, Duane Bay, Assistant Planning Director, and Karen McDowell, Environmental Planner.
- **Corrective Action Plan:**

It has been our practice to verify, prior to contract award, that vendors funded by federal grants have not been suspended or debarred. In the future, we will keep copies of verification reports generated from the System for Award Management website ([www.sam.gov](http://www.sam.gov)). The Association performed searches on SAM for the selected contractors and confirmed that those contractors were not suspended or debarred. Verification reports were provided to the auditors during the final audit. In addition, the Planning Department will update their contract checklist to ensure all required certifications will be included as part of a contract.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –  
Prepared by Management**

**Financial Statement Prior Year Findings**

There were no prior year Financial Statement Findings reported.

**Federal Award Prior Year Findings and Questioned Costs**

There were no prior year Federal Award Findings and Questioned Costs reported.

**ASSOCIATION OF BAY AREA GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Identifying Number	Federal Expenditures
Department of Interior <b>Direct</b> Programs:			
Earthquake Hazards Reduction Program			
Sub-Regional Hazards	15.807	G12AP20105	\$27,815
Bay Area Housing and Population Earthquake Risk	15.807	G13AP00034	59,845
Local Government Resilience Toolkit	15.807	G14AP00066	<u>2,308</u>
Total Department of Interior <b>Direct</b> Programs			<u>89,968</u>
Department of Transportation <b>Pass - Through</b> Programs:			
Pass - Through the Metropolitan Transportation Commission			
Highway Planning and Construction Programs:			
Information Analysis and Planning Services	20.205	Not Available	2,060,000
Station Area Planning Project	20.205	Not Available	<u>268,186</u>
Pass-through Subtotal			2,328,186
Pass - Through the California Department of Transportation			
Highway Planning and Construction Programs:			
Caltrans Permitting	20.205	04A3521	<u>14,646</u>
Program Subtotal			<u>2,342,832</u>
Pass - Through the Metropolitan Transportation Commission			
Metropolitan Transportation Planning			
Information Analysis and Planning Services	20.505	Not Available	<u>230,916</u>
Total Department of Transportation <b>Pass - Through</b> Programs Subtotal:			<u>2,573,748</u>
U.S. Environmental Protection Agency <b>Direct</b> Programs			
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act			
EPA Estuary 2100	66.436	00T04701	<u>267,760</u>
Targeted Watersheds Grants			
EPA Green Infill / Clean SW	66.439	96932601	<u>53,106</u>
National Estuary Program			
EPA FY 12-13 Estuary	66.456	00T47801	294,521
EPA FY 13-14 Estuary	66.456	00T47801	<u>260,183</u>
Program Subtotal			<u>554,704</u>
Congressionally Mandated Projects			
Estuary 2100 Phase II	66.202	00T34101	<u>954,112</u>
The San Francisco Bay Water Quality Improvement Fund			
San Pablo Ave. Green SW Spine	66.126	00T68901	87,448
Flood 2.0 - Rebuilding Habitat & Shoreline Resilience	66.126	00T92401	316,466
Greener Pesticides for Cleaner Waterways	66.126	00T97901	51,779
EPA Mercury CPR	66.126	99T03401	<u>13,315</u>
Program Subtotal			<u>469,008</u>
Regional Wetland Program Development Grant			
EPA Stream III	66.461	96925701	<u>19,419</u>
Subtotal U.S. Environmental Protection Agency <b>Direct</b> Programs			<u>2,318,109</u>

**ASSOCIATION OF BAY AREA GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2014

<b>Federal Grantor/ Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant Identifying Number</b>	<b>Federal Expenditures</b>
U.S. Environmental Protection Agency <b>Pass - Through</b> Programs:			
Pass - Through the Aquatic Science Center			
Regional Wetland Program Development Grant			
Stream & Wetland Policy-4	66.461	951	11,662
Aquatic Science Center Contract II	66.461	1034	<u>35,447</u>
Program Subtotal			<u>66,528</u>
Pass - Through the State Water Resources Control Board			
Nonpoint Source Implementation Grants			
Hicks Flat Mercury Remediation	66.460	09-670-552	<u>123,343</u>
Pass - Through the California Department of Transportation			
Surveys, Studies, Investigations, Demonstrations, and Training Grants and			
Cooperative Agreements - Section 104(b)(3) of the Clean Water Act			
Caltrans Permitting II	66.436	01A1109	<u>50,296</u>
Subtotal U.S. Environmental Protection Agency <b>Pass - Through</b> Programs:			<u>220,748</u>
Total U.S. Environmental Protection Agency Programs:			<u>2,538,857</u>
Department of Housing and Urban Development <b>Pass - Through</b> Programs:			
Pass - Through the Metropolitan Transportation Commission			
Sustainable Communities Regional Planning Grant Program			
HUD Grant	14.703	Not Available	<u>54,579</u>
Department of the Interior <b>Pass - Through</b> Programs:			
Pass - Through the California Department of Boating and Waterways			
Clean Vessel Act Program			
Clean Vessel Act	15.616	00-107-744	<u>142,287</u>
			<u>\$5,399,439</u>
Total Expenditures of Federal Awards			

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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**ASSOCIATION OF BAY AREA GOVERNMENTS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2014**

**NOTE 1-REPORTING ENTITY**

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the Association of Bay Area Governments, California and its component units as disclosed in the notes to the Basic Financial Statements.

**NOTE 2-BASIS OF ACCOUNTING**

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

OMB Circular A-133 requires that certain adjustments be made to expenditures recognized when incurred. The adjustments applicable to the Association are summarized below:

*Expenditure of Long-Term Debt Proceeds* – In this fiscal year, the Association received proceeds from long-term debt funded by the federal government. In accordance with OMB Circular A-133, section .205(d) the Association, included current year expenditures of such proceeds on the Schedule of Expenditures of Federal Awards.

**NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS**

Federal awards may be granted directly to the Association by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the Association. The Schedule includes both of these types of Federal award programs when they occur.

**NOTE 4 - SUBRECEIPIENTS**

Of the federal expenditures presented in the Schedule, the Association provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
66.126	The San Francisco Bay Water Quality Improvement Fund	\$287,700
66.202	Congressionally Mandated Projects Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements -	870,598
66.436	Section 104(b)(3) of the Clean Water Act	182,423
66.439	Targeted Watersheds Grants	20,000
66.460	Nonpoint Source Implementation Grants	117,633

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

To the Honorable Members of the Executive Board of the  
Association of Bay Area Governments, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Association of Bay Area Governments (Association), California, as of and for the year ended June 30, 2014, and have issued our report thereon dated November 9, 2014. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated November 9, 2014 which is an integral part of our audit and should be read in conjunction with this report.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mage & Associates*

Pleasant Hill, California  
November 9, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Members of the Executive Board of the Association of Bay Area Governments, California

***Report on Compliance for Each Major Federal Program***

We have audited the Association of Bay Area Government's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2014. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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, *Audits 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 Association'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Association's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, 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 as items 2014-01 and 2014-02. Our opinion on each major federal program is not modified with respect to these matters.

### ***City's Response to Findings***

The Association's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on Internal Control Over Compliance***

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, material weaknesses and significant deficiencies may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133*

We have audited the basic financial statements of the Association as of and for the year ended June 30, 2014, and have issued our report thereon dated November 9, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Maye & Associates*

Pleasant Hill, California  
November 9, 2014

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**ASSOCIATION OF BAY AREA GOVERNMENTS  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**FOR THE YEAR ENDED  
JUNE 30, 2014**

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**ASSOCIATION OF BAY AREA GOVERNMENTS  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**For the Year Ended June 30, 2014**

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## MEMORANDUM ON INTERNAL CONTROL

To the Executive Board of the  
Association of Bay Area Governments  
Oakland, California

In planning and performing our audit of the basic financial statements of the Association of Bay Area Governments (Association) for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Included in the Schedule of Other Matters are recommendations not meeting the above definition that we believe to be of potential benefit to the Association.

This communication is intended solely for the information and use of management, the Board, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads 'Maze + Associates'.

Pleasant Hill, California  
November 9, 2014

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ASSOCIATION OF BAY AREA GOVERNMENTS  
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

**NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE**

The following comment represents new pronouncements taking affect in the next few years. We have cited them here to keep you abreast of developments:

**EFFECTIVE FISCAL YEAR 2015:**

**2014-01: GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)**

This Statement will have material impact on the Association's financial statements. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**net pension liability**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**total pension liability**), less the amount of the pension plan's **fiduciary net position**.
- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end).

**ASSOCIATION OF BAY AREA GOVERNMENTS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

**2014-02:        GASB 69 – Government Combinations and Disposals of Government Operations**

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

**2014-03:        GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68**

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

ASSOCIATION OF BAY AREA GOVERNMENTS  
MEMORANDUM ON INTERNAL CONTROL

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

**2013 – 1:      Bank reconciliation – prepare and review process**

**Criteria:** Bank statements should be reconciled in a timely manner denoting who the preparer was, when the bank reconciliation was prepared, who the reviewer was, and when the review was performed.

**Condition:** During our testing of the Association's March, 2013 bank reconciliations, we noted that although reconciliations are being performed, there were no physical indications of by whom and when the preparation and review process took place.

**Effect:** Without proper audit trail of said processes, timely reconciliation is questionable and no accountability is denoted.

**Cause:** Lack of audit trail processes was an oversight by staff.

**Recommendation:** We noted that the Association corrected this internal control error when the June, 2013 bank reconciliations were tested, however we recommend the Association continue to implement said process.

**Management Response:** Bank reconciliations were prepared by the accountants that are responsible for the entities. Reviewers were required to review and sign off on the bank reconciliations in the past. The practice was consistent and reviewed by the auditors as part of the annual audit. The new recommendation will enhance internal control, and we will continue to implement the process.

**Current Status:** Recommendation was implemented in FY 2013-14.

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## REQUIRED COMMUNICATIONS

To the Executive Board of the  
Association of Bay Area Governments  
Oakland, California

We have audited the basic financial statements of the Association of Bay Area Governments (Association) for the year ended June 30, 2014. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133.

### Significant Audit Findings

#### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association of Bay Area Governments are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows. The pronouncements become effective, but did not have a material effect on the financial statements.

#### **GASB 65 - *Items Previously Reported as Assets and Liabilities***

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

#### **GASB 67 – *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25***

This statement is applicable to the Association’s PERS pension plans and we understand they intend to implement the Statement in the fall of 2015 in order to have the applicable information available for the Association to implement the provisions of Statement 68 in fiscal year 2015.

This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

## **GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees**

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

### ***Unusual Transactions, Controversial or Emerging Areas***

We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### ***Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Association's financial statements is unbilled receivables. The Association has recorded unbilled receivables approximating \$2.67 million. Actual billings and the ultimate collections may vary from this estimate.

### ***Disclosures***

The financial statement disclosures are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all/certain such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in a management representation letter dated November 9, 2014.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

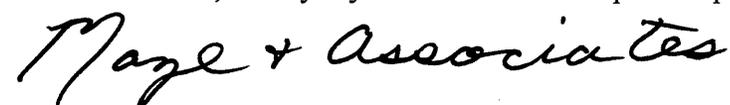
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Matters:**

### ***Other Information Accompanying the Financial Statements***

With respect to the required supplementary information accompanying the financial statements, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion nor provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

This information is intended solely for the use of the Board and management and is not intended to be, and should not be, used by anyone other than these specified parties.



Pleasant Hill, California  
November 9, 2014

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