ABAG FINANCE AND PERSONNEL COMMITTEE

Thursday, November 17, 2011, 5:00 p.m.
ABAG Conference Room B
MetroCenter—8th and Oak Streets
Oakland, CA

Est. Time in Minutes			Recommendation***
	1.	**Call to Order**	
2	2.	**Public Comments**	**Information**
3	*3.	**Minutes of the September 15, 2011 Meeting**	**Action**
5	*4.	**Financial Reports – ABAG** *The August and September 2011 Financial reports are enclosed with the agenda packet.*	**Action**
15	**5.	**Audited Financial Reports for ABAG** *Auditors from Maze & Associates will present the June 30, 2011 audited financial reports for ABAG. Committee will consider recommending Executive Board approval of these reports.*	**Action**
3	6.	**Update on ABAG Membership Dues** *Staff will orally present the cities that still owe dues as of November 17, 2011.*	**Information**
5	7.	**Update on Proposed Regional Facility** *Staff will present an oral update on MTC actions regarding their purchase of the property at 390 Main Street, San Francisco.*	**Information/ Action**
	*8.	**Resolution to Clarify Intent of 1994 ABAG Resolution and to Conform to Updated CalPERS and IRS Regulations** *Staff will present a proposed resolution that clarifies intent of a 1994 ABAG resolution for ABAG to join CalPERS offering the benefits of the 1994 negotiated labor contract, including Employer Paid Member Contributions (EPMC). CalPERS requires this new resolution in order to maintain EPMC as a tax-deferred benefit; otherwise, the EPMC payments become taxable after November 30, 2012. Recommend approval by the Executive Board.*	**Action**

5 9. **Authorize Executive Director at his discretion to Retain Norm Roberts Search Firm to Recruit a Deputy Director in an amount not to exceed $40,000**
Norm Roberts is a professional search firm who is knowledgeable with ABAG and who has recruited a Deputy Director for ABAG in the past three years. As the price for these services vary only slightly, and given time constraints to conclude a thorough search, the ED respectfully requests waiver of the ABAG administrative RFP search process so that the ED can negotiate directly with Norm Roberts on a sole source basis for this position only.

THE FOLLOWING ITEMS WILL BE DISCUSSED IN CLOSED SESSION PURSUANT TO THE REQUIREMENTS OF THE RALPH M. BROWN ACT.

5 10. **Conference with Labor Negotiators** **Information**
Agency designated representatives: Patricia Jones, Brian Kirking and Austris Rungis (IEDA)
Employee organization: SEIU Local 1021

20 11. **Public Employee Performance Evaluation** **Action**
Title: Executive Director
Materials for this item will be mailed under separate cover.

12. **Adjournment** **Action**

* Attachments enclosed with packet. ** Being forwarded to members under separate cover later.
*** The Committee may take action on any item on the agenda, which action may be the recommended action, any other action or no action.

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ABAG FINANCE AND PERSONNEL COMMITTEE

Summary Minutes

September 15, 2011

Members Present	Jurisdiction
Supervisor Rose Jacobs Gibson, Chair	County of San Mateo
Supervisor David Cortese	County of Santa Clara
Mayor Mark Green	City of Union City
Supervisor Scott Haggerty	County of Alameda
Vice Mayor Peter McHugh	City of Milpitas
Councilmember A. Sepi Richardson	City of Brisbane

Members Not in Attendance	
Supervisor Susan Adams	County of Marin
Supervisor John Gioia	County of Contra Costa
Supervisor Barbara Kondylis	County of Solano

Officers and Staff Present
Ezra Rapport, Executive Director
Kenneth Moy, Legal Counsel
Herbert Pike, Finance Director
Susan Hsieh, Assistant Finance Director

Guests:
Councilmember Julie Pierce — City of Clayton

1) The meeting was called to order at 5:02 p.m.

2) Summary Minutes of the July 21, 2011 meeting were approved. /M/McHugh/S/Green/C/approved.

3) Pike provided an overview of the June and July 2011 Financial Reports. /M/McHugh/S/Richardson/C/approved.

4) After much discussion, it was agreed to continue discussions regarding a proposed ABAG Reserve Policy. Staff was directed to research the feasibility of accessing a TRAN to cover short term cash flow fluctuations that occur during the fiscal year. A sub-committee comprised of Green, Richardson and Jacobs Gibson was informally designated to review possible long term revenue sources.

(continued)

5) The Committee agreed to recommend an *amiucs curiae* brief in support of RDA vs. Matosantos, if pro bono legal services can be obtained. /M/Green/S/McHugh/C/approved.

6) The Committee reviewed the ABAG Diversity and Business Opportunity Report—FY 2010-11. /M/Richardson/S/McHugh/A/accepted report.

7) The Committee received a report from Mr. Rapport on the actions to-date of MTC's acquisition of a new Regional Facility and the forthcoming calendar of meetings and events. No formal action was taken.

8) Closed Session—Employee performance evaluation and other confidential issues to be discussed. No Action to report.

9) Meeting adjourned at 6:05 p.m.

TO: Finance and Personnel Committee

DT: September 31, 2011

FM: Herbert Pike, Finance Director

Re: Financial Reports
--August 2011

The following are highlights of the financial reports for August 2011.

Overall Summary (Figures 3, 4, 7 & 8)
At August 31st, the Agency's net financial operating gain of about $179 thousand is higher than in previous years, the largest factor being the surplus in indirect overhead to-date attributed to the diversion of accounting personnel away from indirect overhead and charging directly to several new energy projects. The Association's cash balance is $879 thousand higher than the end of August the prior year.

Cash on Hand (Figure 1)
Cash on hand increased to $3.44 million as of August 31st from $2.88 million on July 31st. The increase of $568 thousand is attributed primarily to membership dues receipts and surplus in the indirect overhead account. The August balance includes approximately $2.58 million invested in the Local Agency Investment Fund (LAIF). Currently, ABAG does not hold any other investments. The August 31st cash balance is approximately $879 thousand greater than the prior year.

Receivables (Figure 2)
Receivables from grant and service programs amounted to about $3.22 million on August 31st, a decrease of $1.42 million from the month prior. The month to month decrease reflects a $960 thousand decrease in billed grants receivables and a $449 thousand decrease in unbilled receivables. The lower total receivable is primarily attributed to the annual cycle wherein much of the non-labor costs are captured and attributed to June for the closing of the prior fiscal year and there is a lag before contractor bill are submitted for work commenced after July 1. Receivables are approximately $782 thousand higher than they were a year prior reflecting the higher activity level in the current fiscal year, especially in energy-related grant activity.

Actual vs. Budgeted Expenses (Figure 9)
Total expenses through August 31st, the second month of the new fiscal year, amounted to about $2.92 million, or 13.2 percent, of the budgeted annual expense of $22.1 million for FY 2011-12.

Actual vs. Budgeted Revenues (Figure 10)
As of August 31st, total revenues amounted to about $3.10 million, or 14.0 percent, of the budgeted annual revenue of $22.1 million for FY 11-12.

As of August 31st, both revenues and expenses are below projections for the first two months of FY 2011-12 (16.7 percent). These positions are largely due to the timing of consultant and sub-contractor expenses that are grant funded and for which there is a customary lag between the

rendering of the service and the conversion to an expense and receivable when the contractors submit their bills.

Fund Equity (Figure 5)

As of August 31st, general fund equity was approximately $1.26 million, an increase of $328 thousand from July 31st totals. The Agency's restricted fund equity, consisting of capital, self-insurance, building maintenance and reserves, remained unchanged at $560 thousand. That is $50 thousand over the previous year to reflect the discussed minimum annual reserve increase in reserves of $50 thousand per year.

Indirect Cost (Figure 6)

The Agency's actual indirect cost (overhead) rate was 38.66 percent of direct labor cost as of August 31st, or 4.29 percent below the budgeted rate of 42.95 percent for FY 2011-12. The lower than expected rate reflects the diversion of substantial central services efforts toward new grants, especially energy grants. Unless new grants are awarded later in the year, it is expected that the grants will end and staff will move toward allocable overhead costs that will cause the rate to rise. Also contributing has been the high activity level of Planning to address strict deadlines that has resulted in deferral of some vacations, thereby increasing the base over which overhead expense is charged.

ABAG FINANCIAL REPORTS

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* Cash on Hand ..... Figure 1
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* Indirect Cost Rate (% of Direct Labor Cost) ..... Figure 6
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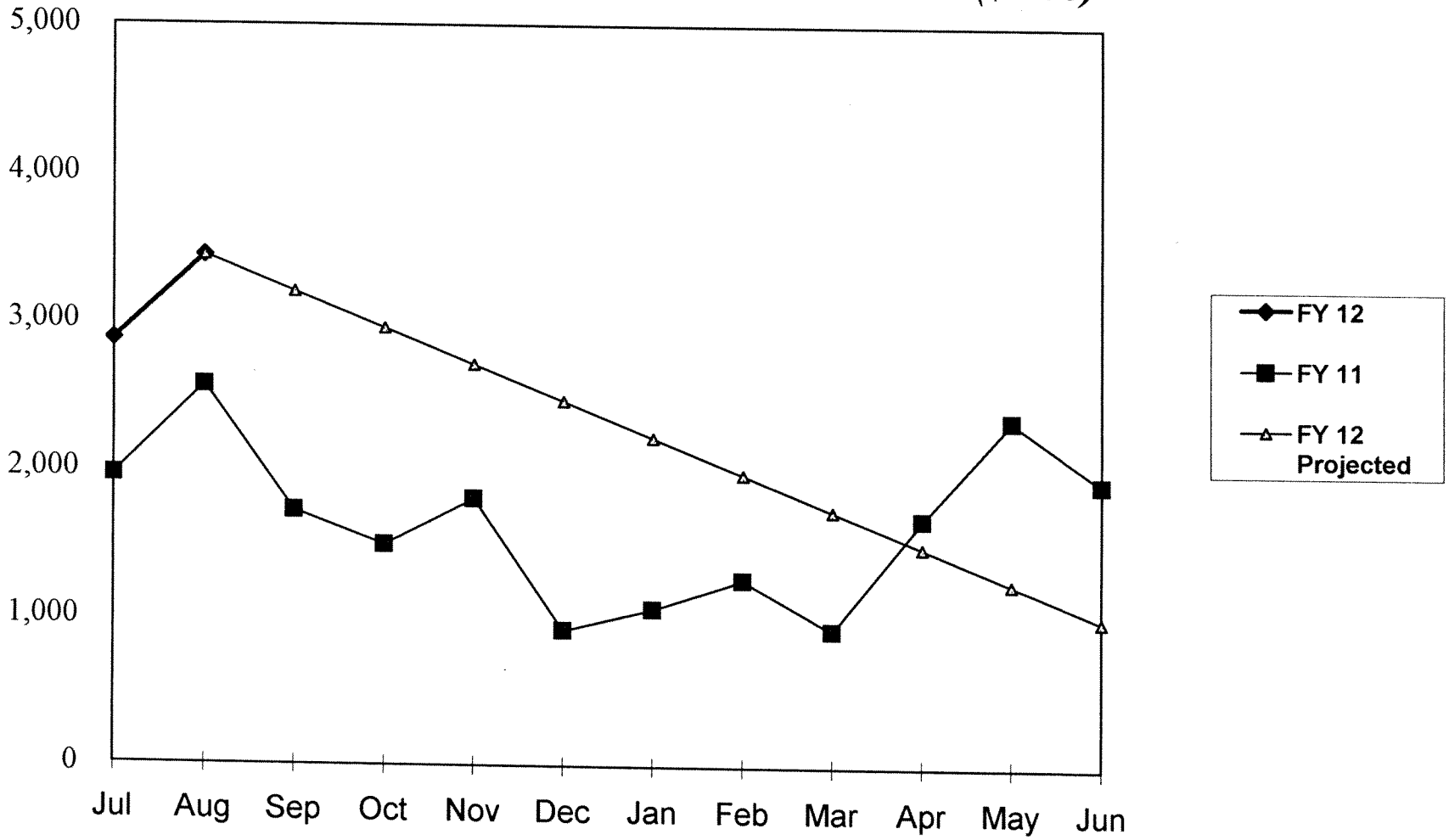
* Actual vs. Budgeted Expenses ..... Figure 9
* Actual vs. Budgeted Revenues ..... Figure 10

ABAG Financial Indices

Figure 1--*Cash on Hand--FY 11 and FY 12 ($'000)*

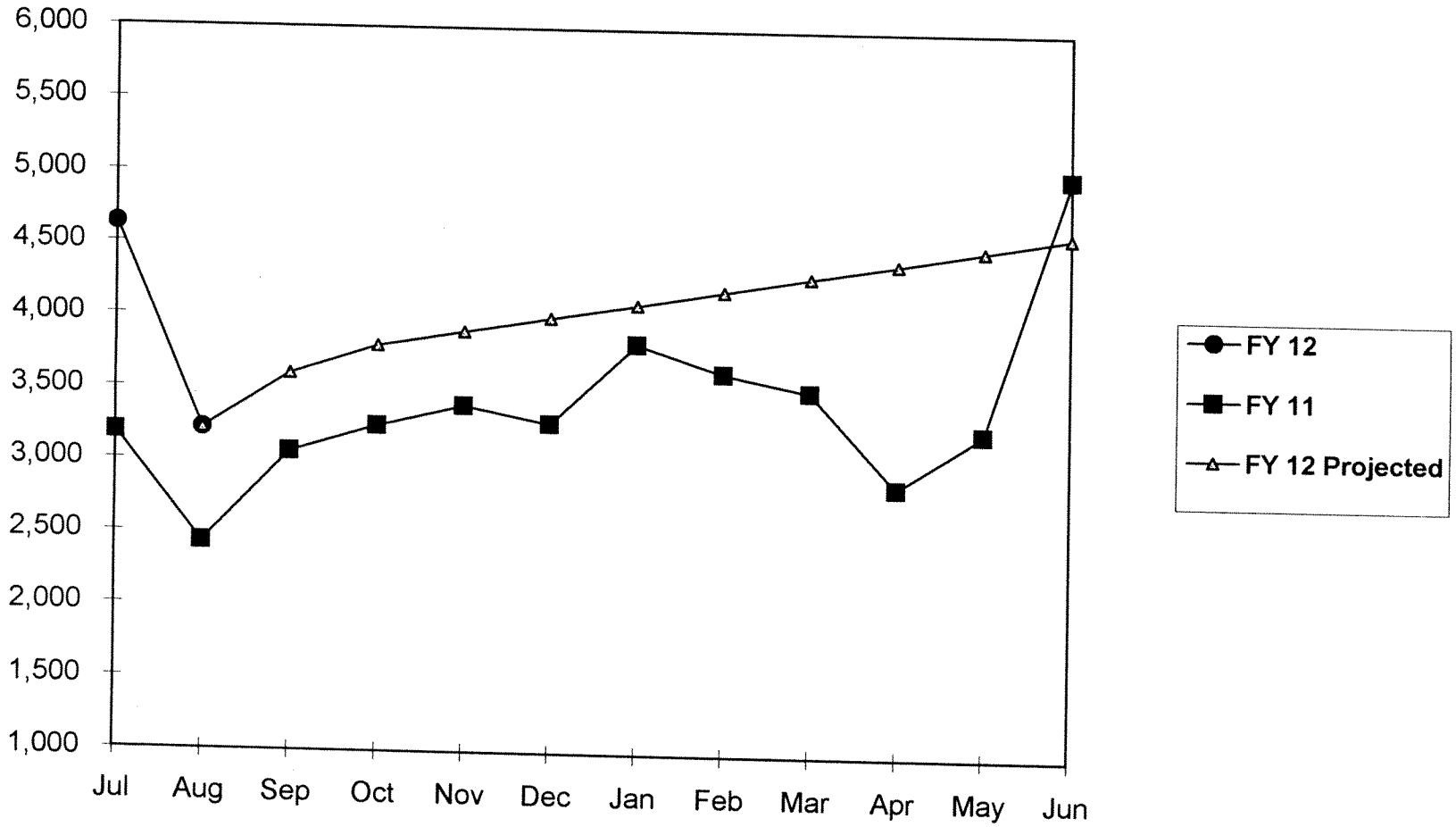


Represents the sum total of cash deposited at our bank and the Local Agency Investment Fund. This chart shows fluctuation patterns of cash on hand for the current and prior fiscal years.

Source: ABAG -INDICES 2011-08.xls

ABAG Financial Indices

Figure 2--*Accounts Receivable--FY 11 and FY 12 ($'000)*



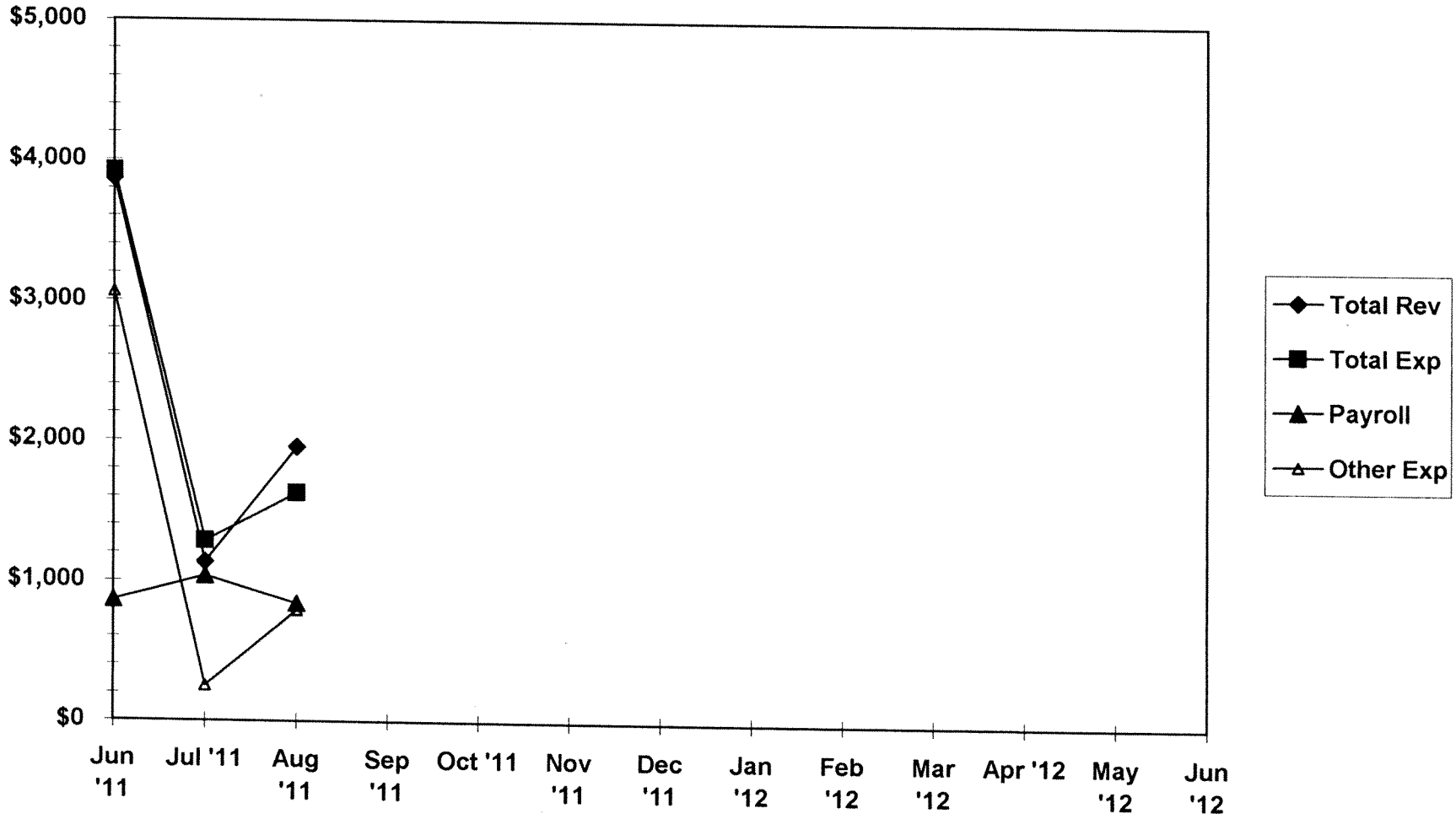
Accounts receivable include receivables generated by grants and service programs over two fiscal years. Reflects the reasonableness of our receivable levels; usually have about six weeks' worth of annual revenues in receivables.

Source: ABAG -INDICES 2011-08.xls

ABAG Financial Indices

Figure 3--*Current Month Revenues & Expenses*

FY 11-12 ($'000)

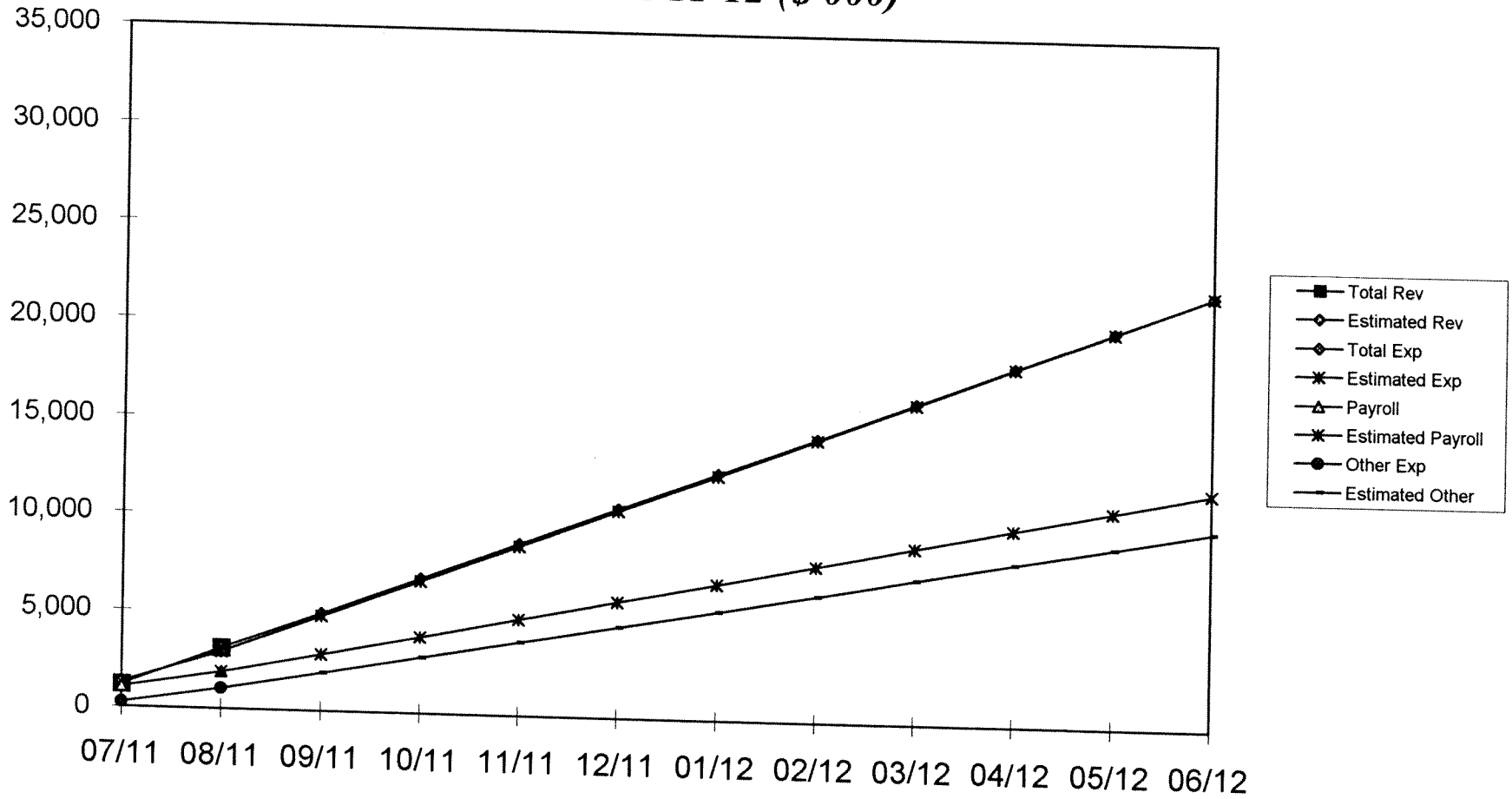


Presents month by month total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall current month net surplus (or deficit) for the Association.

Source: ABAG- INDICES 2011-08.xls

ABAG Financial Indices

Figure 4--Year-to-date Revenues & Expenses
FY 11-12 ($'000)



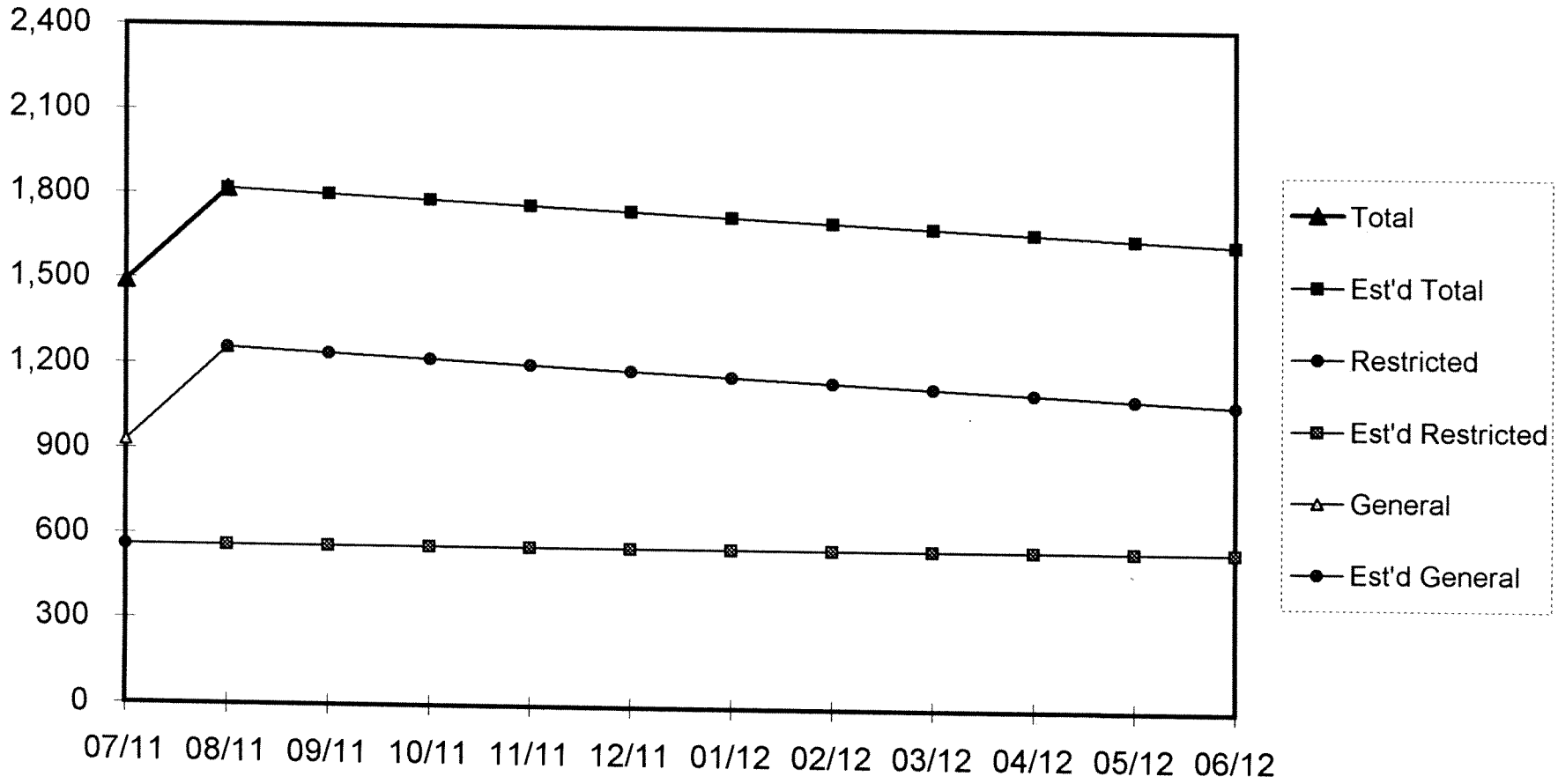
Presents year-to-date total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall year-to-date net surplus (or deficit) for the Association.

Source: ABAG - INDICES 2011-08.xls

ABAG Financial Indices

Figure 5--*Fund Equity*

FY 11-12 ($'000)

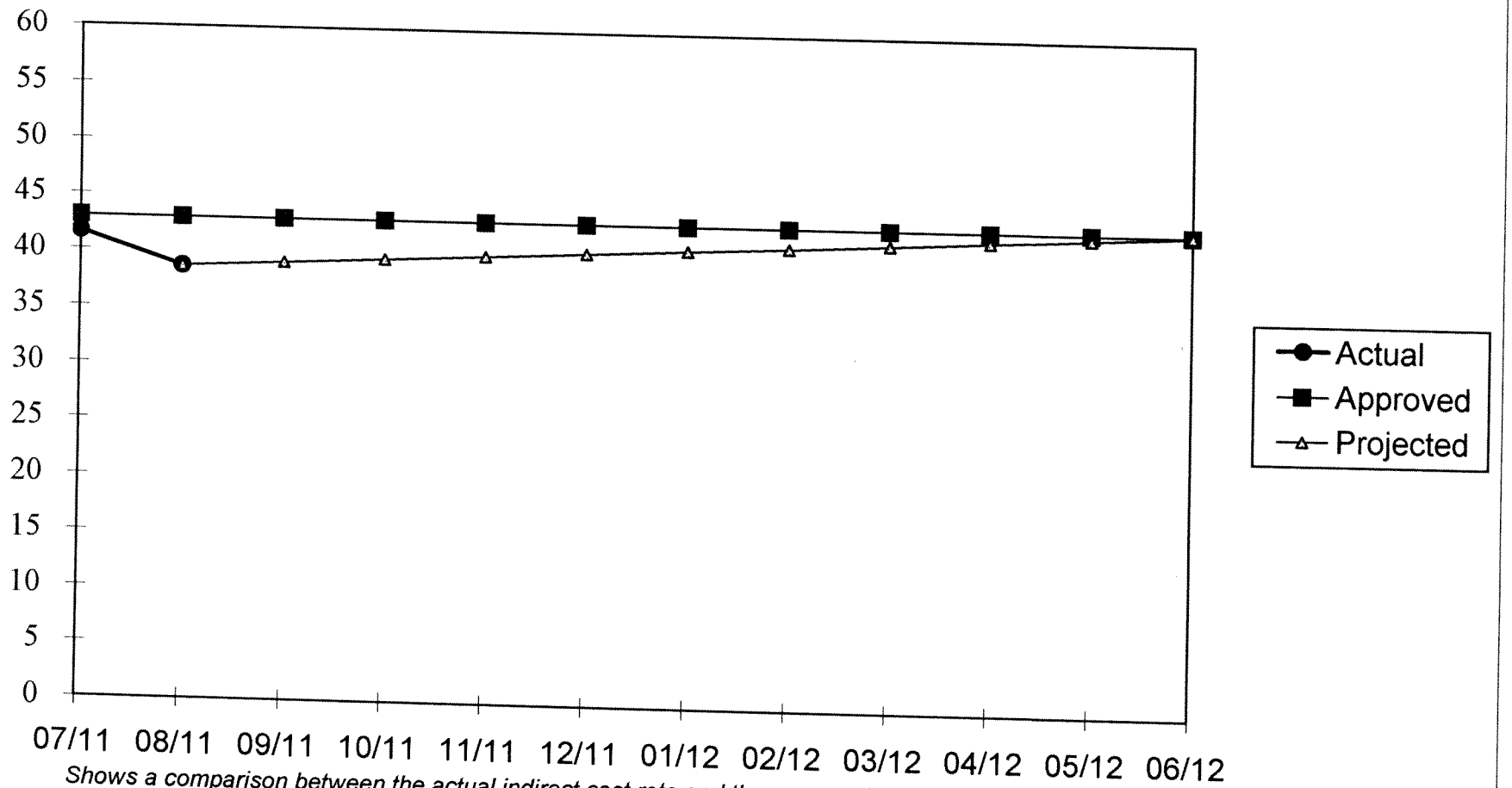


Presents general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building improvement interest, building maintenance, self-insurance, capital and contingency reserve. These restricted equities represent the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

Source: ABAG - INDICES 2011-08.xls

ABAG Financial Indices

Figure 6--*Indirect Cost Rate (% of Direct Labor Cost)*
FY 11-12

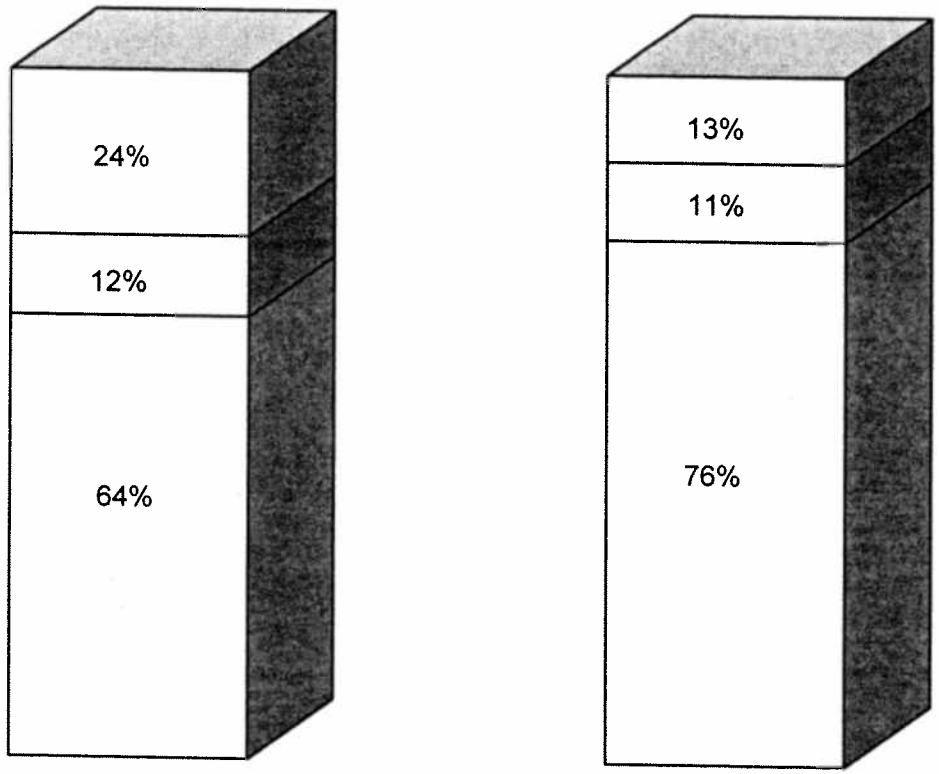


Shows a comparison between the actual indirect cost rate and the approved rate. The approved indirect cost rate is computed by dividing total estimated overhead expenses by total projected direct labor cost for a fiscal year. This rate is used as a standard overhead cost rate to allocate indirect costs to all projects. This process is performed in accordance with an indirect cost plan, which is prepared annually in accordance with OMB Circular A-87.

Source: ABAG- INDICES 2011-08.xls

ABAG Financial Indices

Figure 7-- Composition of Expenses FY 11--FY 12
Year to Date
($'000)



	FY11-12 Expenses (Total $2,918)	FY10-11 Expenses (Total $2,513)
☐ Consultants	$702	$318
☐ Others	$339	$285
☐ Payroll	$1,877	$1,910

This chart compares expenses for current and prior fiscal year. It groups expenses into three broad categories--payroll costs, consultants and other expenses.

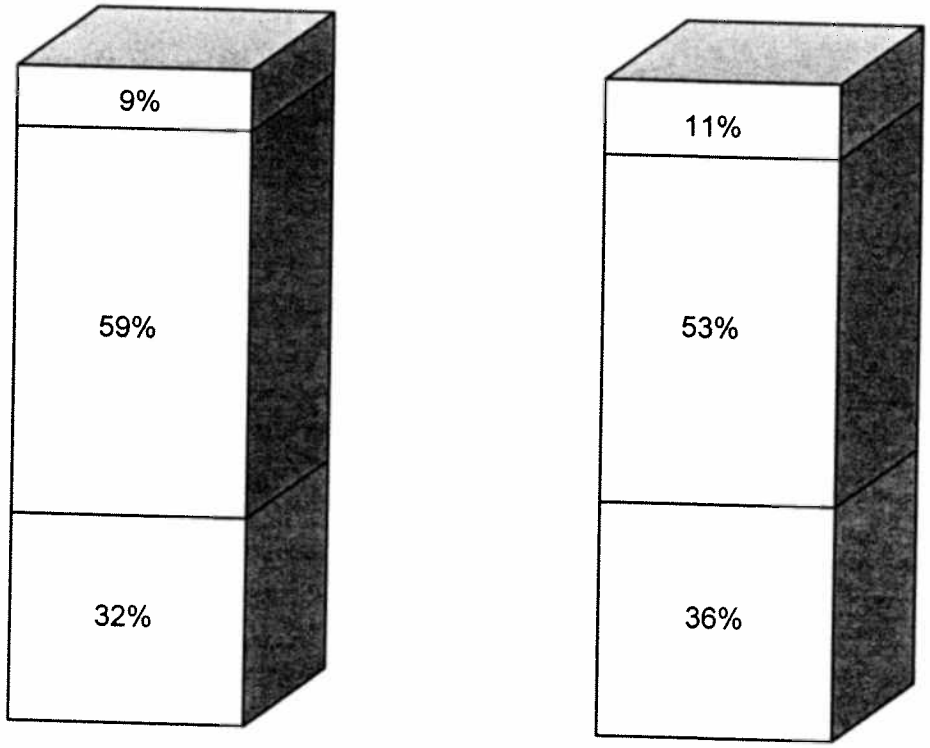
Source: ABAG -INDICES 2011-08.xls

ABAG Financial Indices

Figure 8-- Composition of Revenues FY 11--FY 12

Year to Date

($'000)



	FY 11-12 Revenue (Total $3,097)	FY 10-11 Revenue (Total $2,445)
☐ Membership	$289	$281
☐ Grants	$1,828	$1,295
☐ Services & Others	$980	$869

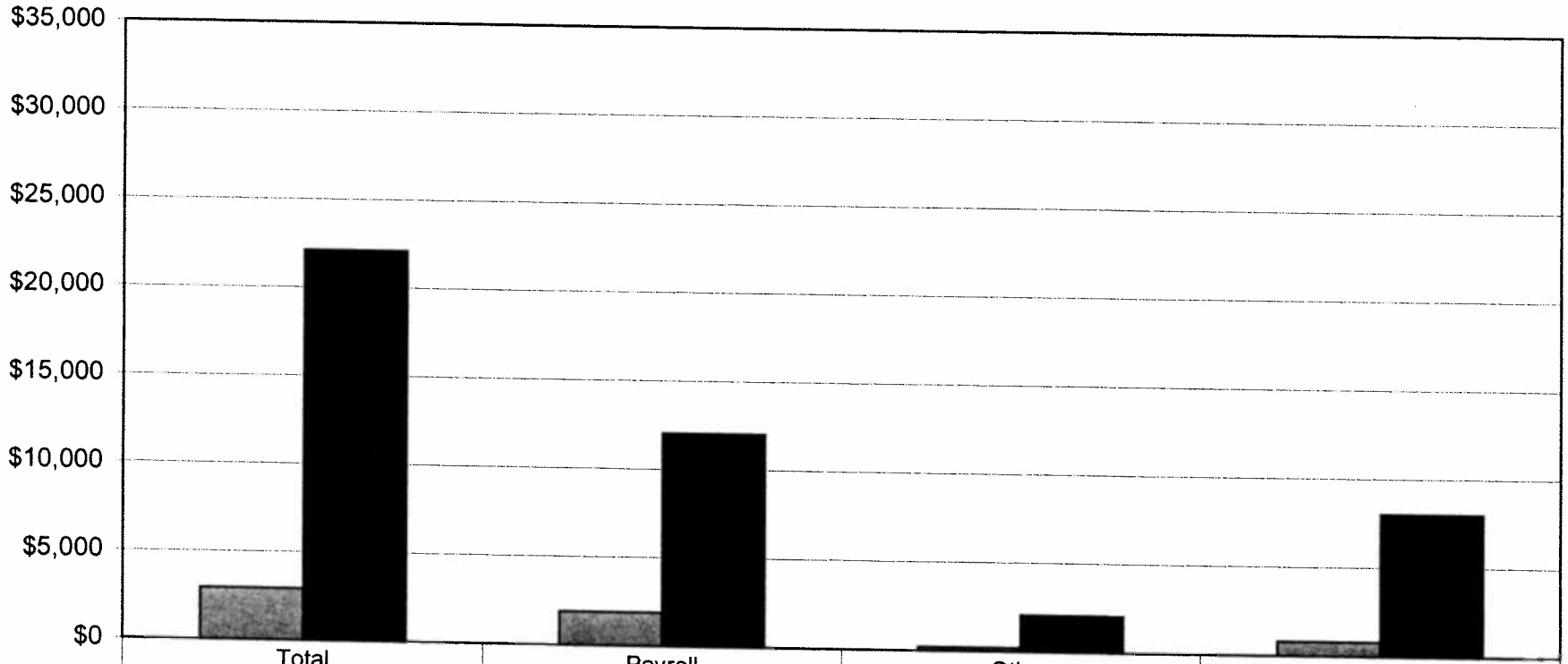
Presents a breakdown of total revenues into four main sources--membership, grants, services and others. This chart compares revenue sources between current and prior fiscal year.

Source: ABAG --- INDICES 2011-08.xls

ABAG Financial Indices

Figure 9--*Actual vs Budgeted Expenses--FY 11-12*

Year to Date ($'000)



	Total	Payroll	Other	Consultants
Actual	$2,918	$1,877	$216	$825
Budgeted	$22,098	$12,030	$2,068	$8,000

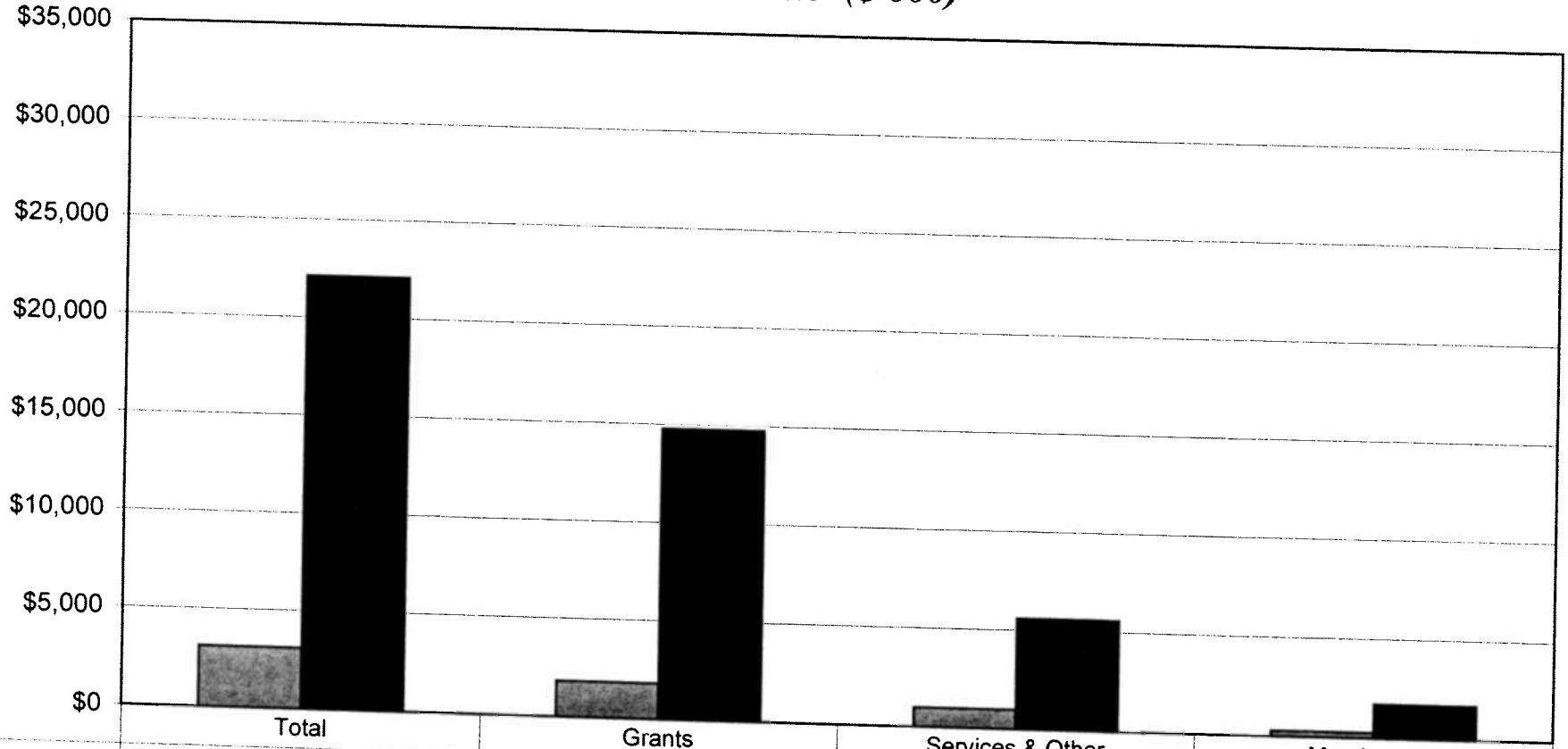
Presents a comparison of actual and budgeted/projected total expenses as well as component categories: payroll costs, consultants and other expenses.

Source: ABAG -- INDICES 2011-08.xls

ABAG Financial Indices

Figure 10--*Actual vs Budgeted Revenues--FY 11-12*

Year to Date ($'000)



	Total	Grants	Services & Other	Membership
Actual	$3,097	$1,828	$980	$289
Budgeted	$22,098	$14,767	$5,600	$1,731

Presents a comparison of actual and budgeted/projected total revenues as well as component categories: membership dues, grants, services and other.

Source: ABAG --INDICES 2011-08.xls

TO: Finance and Personnel Committee

DT: October 31, 2011

FM: Herbert Pike, Finance Director

Re: Financial Reports --September 2011

The following are highlights of the financial reports for September 2011.

Overall Summary (Figures 3, 4, 7 & 8)
At September 30th, the Agency's net financial operating gain of about $270 thousand is higher than in previous years, the largest factor being the surplus in indirect overhead to-date attributed to the diversion of accounting personnel away from indirect overhead and charging directly to several new energy projects. The Association's cash balance is $1.35 million higher than the end of September the prior year.

Cash on Hand (Figure 1)
Cash on hand decreased to $3.07 million as of September 30th from $3.44 million on August 31st. The decrease of $374 thousand is attributed primarily to the cyclical increase in accounts receivable that derives from quarterly billing. The September balance includes approximately $2.18 million invested in the Local Agency Investment Fund (LAIF). Currently, ABAG does not hold any other investments. The September 30th cash balance is approximately $1.35 million greater than the prior year.

Receivables (Figure 2)
Receivables from grant and service programs amounted to about $3.70 million on September 30th, an increase of $481 thousand from the month prior. The month to month increase reflects a $386 thousand decrease in billed grants receivables offset by an $850 thousand increase in unbilled receivables. Now into the third month of the new fiscal year, the impact of the annual cycle of fiscal year-end close and re-open is subsiding, but the quarterly cyclical pattern is still in place creating this up and down trade pattern. Receivables are approximately $635 thousand higher than they were a year prior reflecting the higher activity level in the current fiscal year, especially in energy-related grant activity.

Actual vs. Budgeted Expenses (Figure 9)
Total expenses through September 30th, the third month (first quarter) of the new fiscal year, amounted to about $5.17 million, or 23.4 percent, of the budgeted annual expense of $22.1 million for FY 2011-12.

Actual vs. Budgeted Revenues (Figure 10)
As of September 30th, total revenues amounted to about $5.44 million, or 24.6 percent, of the budgeted annual revenue of $22.1 million for FY 11-12.

As of September 30th, both revenues and expenses are below projections for the first three months of FY 2011-12 (25.0 percent). These positions are largely due to the timing of consultant and sub-

contractor expenses that are grant funded and for which there is a customary lag between the rendering of the service and the conversion to an expense and receivable when the contractors submit their bills.

Fund Equity (Figure 5)

As of September 30th, general fund equity was approximately $1.35 million, an increase of $91 thousand from August 31st totals. The Agency's restricted fund equity, consisting of capital, self-insurance, building maintenance and reserves, remained unchanged at $560 thousand. That is $50 thousand over the previous year to reflect the discussed minimum annual reserve increase in reserves of $50 thousand per year.

Indirect Cost (Figure 6)

The Agency's actual indirect cost (overhead) rate was 38.73 percent, or 4.225 below target. The lower than expected rate reflects the diversion of substantial central services efforts toward new grants, especially energy grants. Unless new grants are awarded later in the year, it is expected that the grants will end and staff will move toward allocable overhead costs that will cause the rate to rise.

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ABAG Financial Indices

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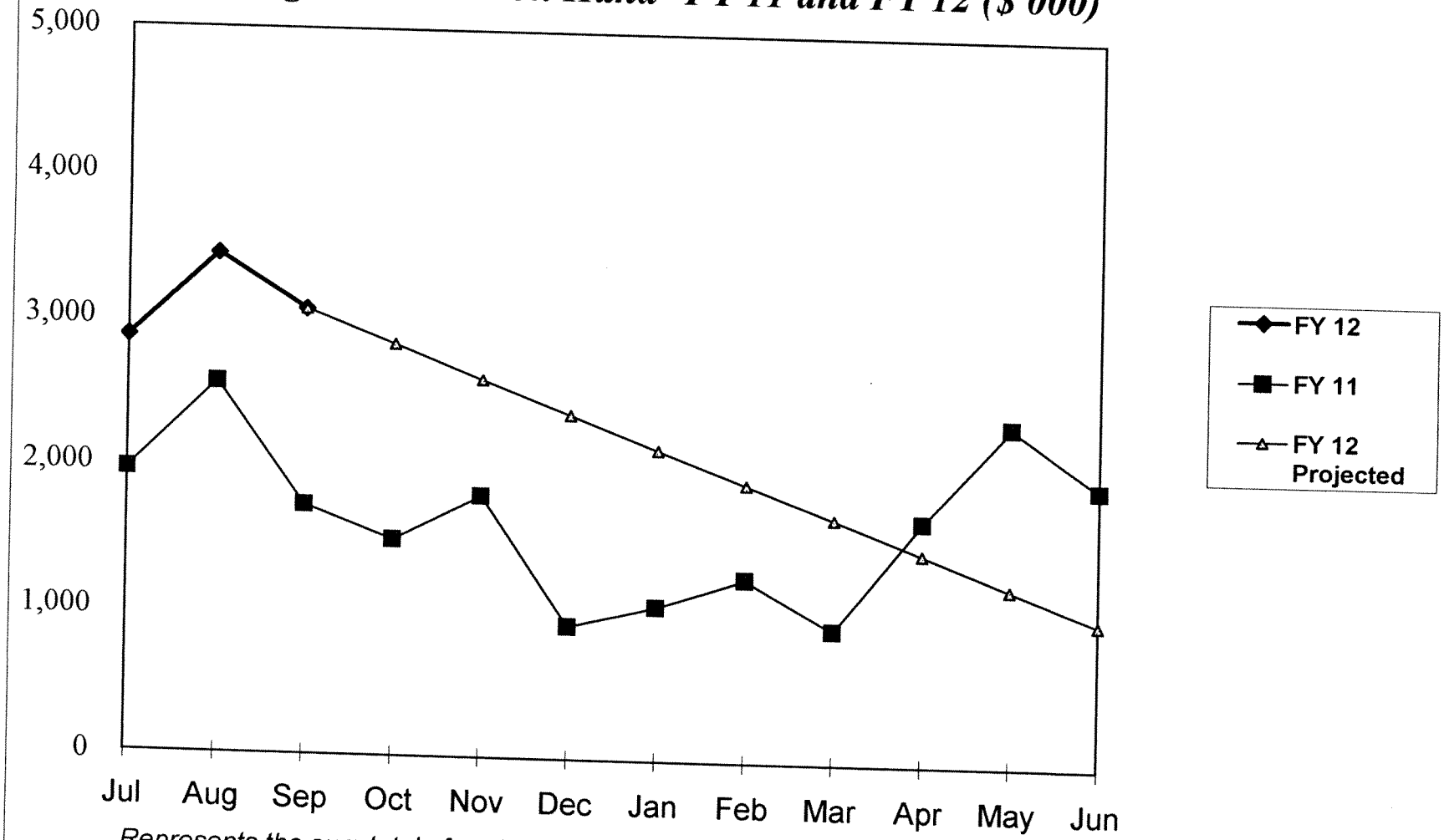

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ABAG Financial Indices

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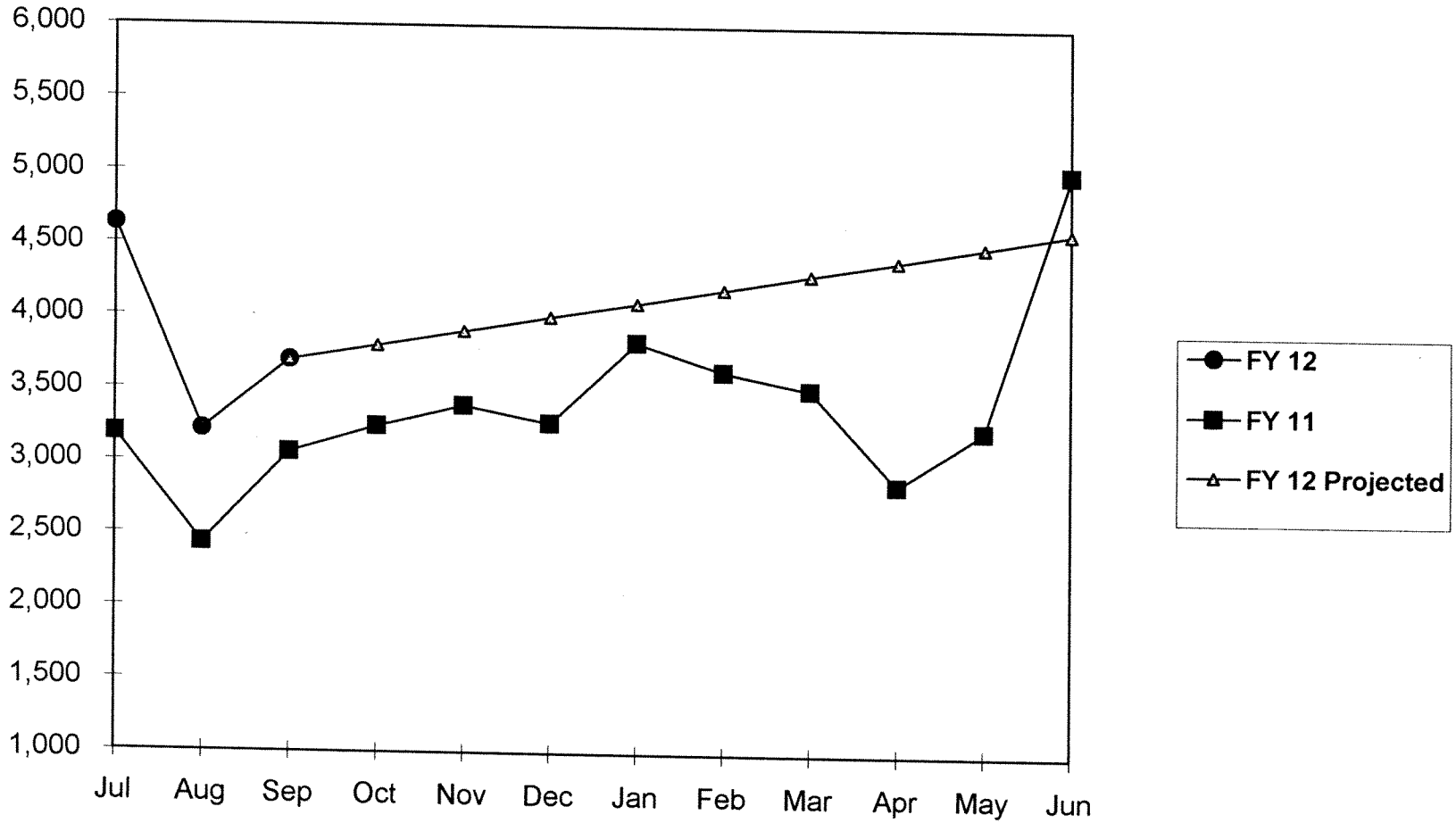

Accounts receivable include receivables generated by grants and service programs over two fiscal years. Reflects the reasonableness of our receivable levels; usually have about six weeks' worth of annual revenues in receivables.

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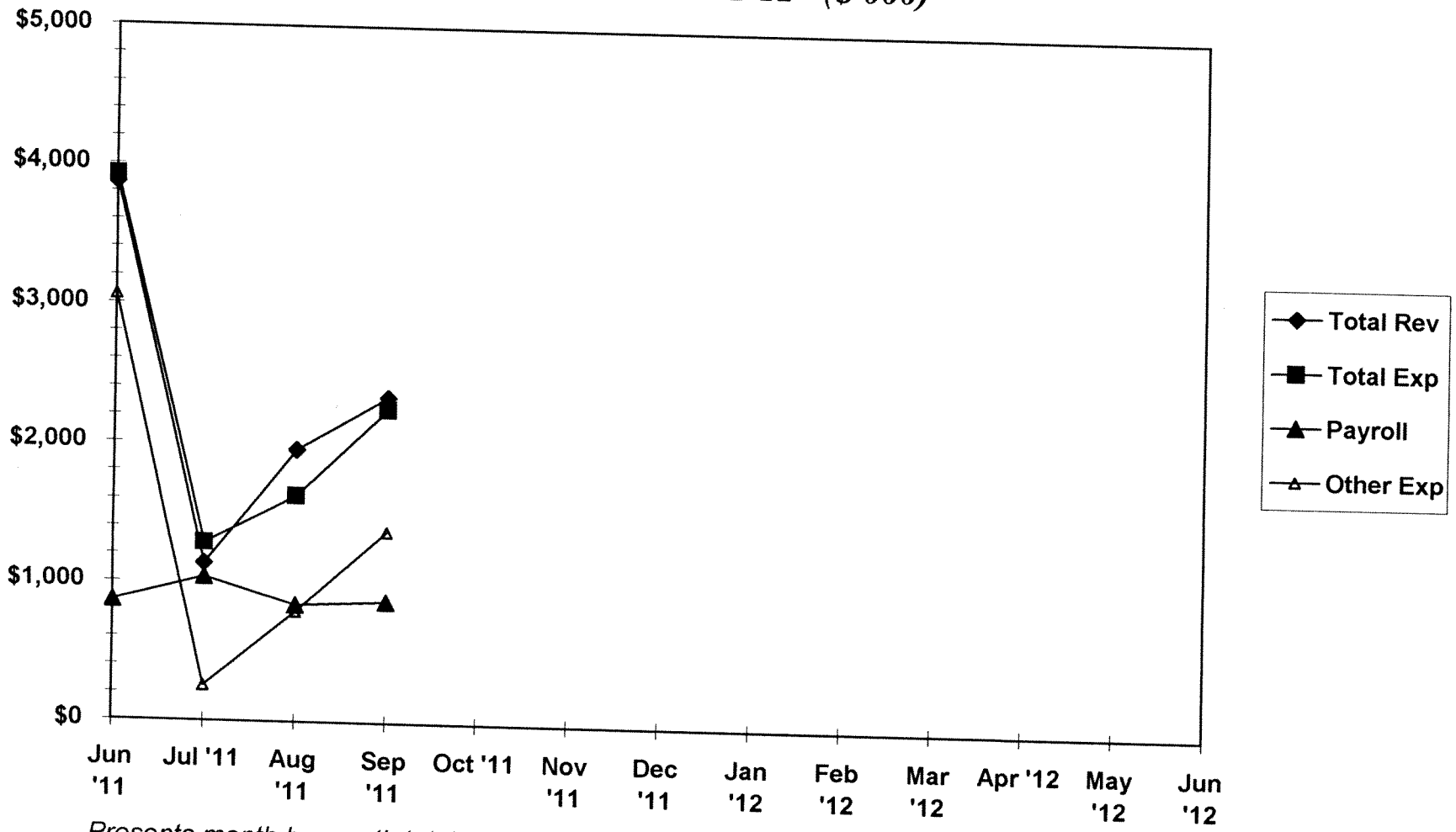
ABAG Financial Indices

Figure 3--*Current Month Revenues & Expenses*
FY 11-12 ($'000)

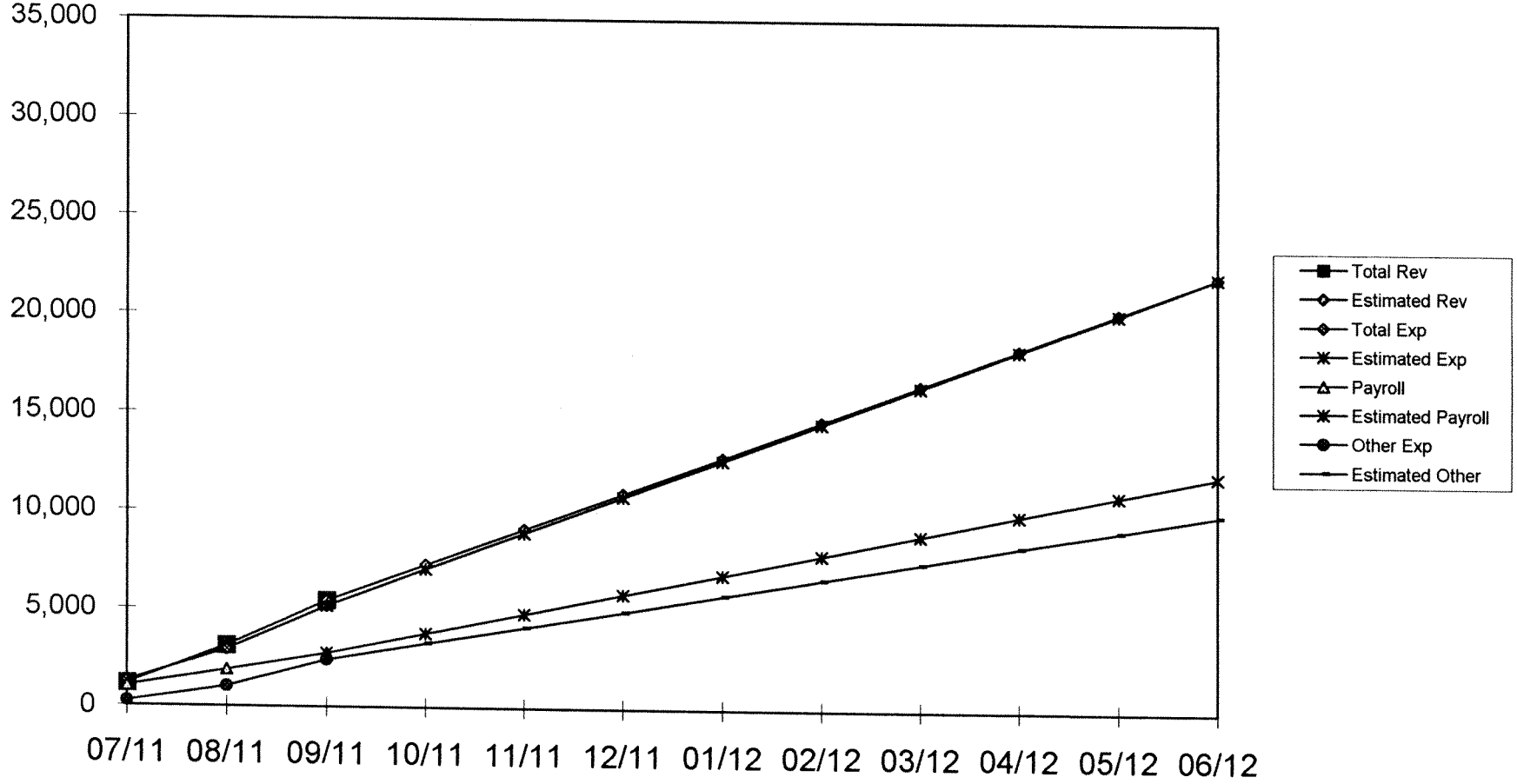


Presents month by month total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall current month net surplus (or deficit) for the Association.

Source: ABAG- INDICES 2011-09.xls

ABAG Financial Indices

Figure 4--Year-to-date Revenues & Expenses
FY 11-12 ($'000)



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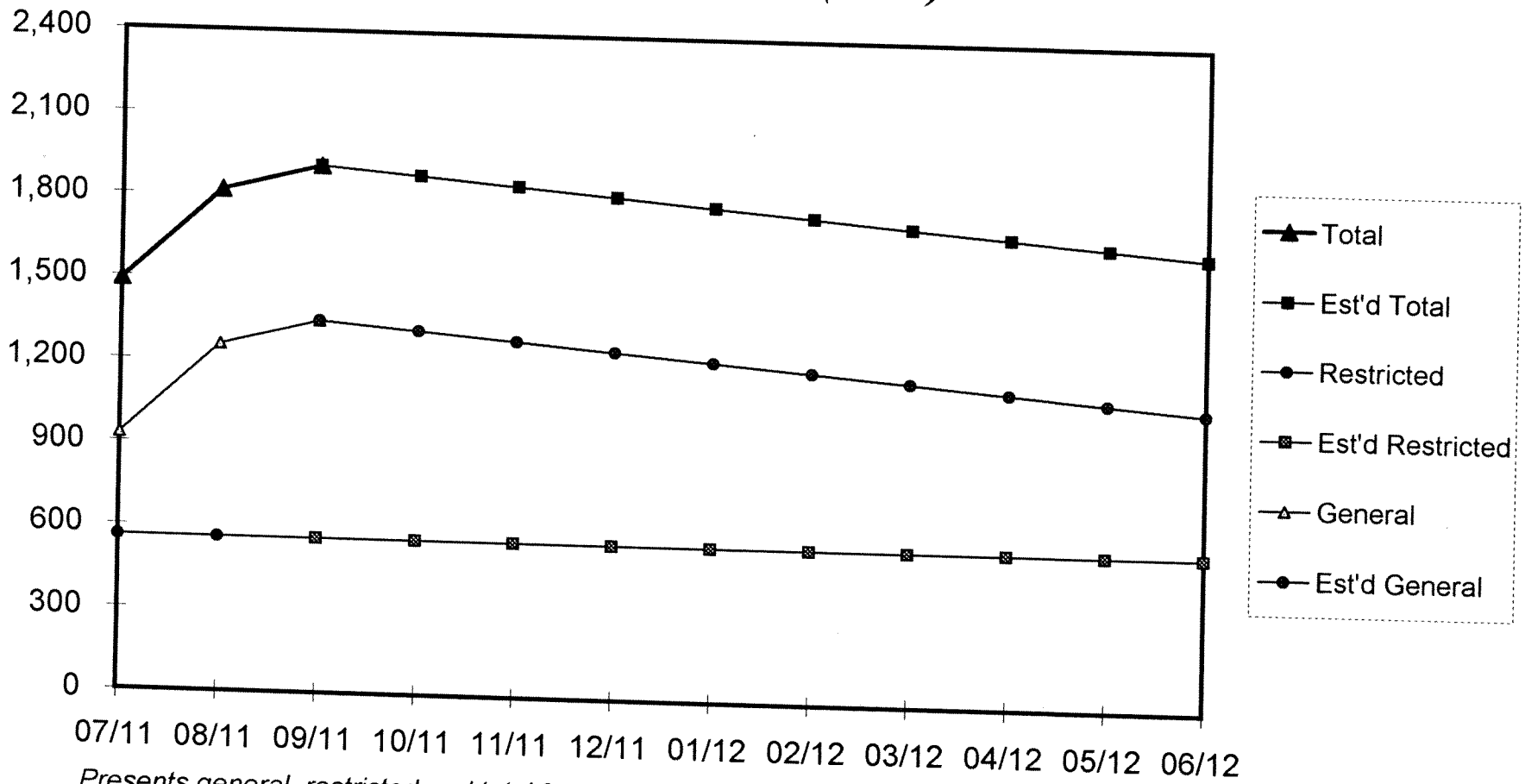
ABAG Financial Indices

Figure 5--*Fund Equity*

FY 11-12 ($'000)



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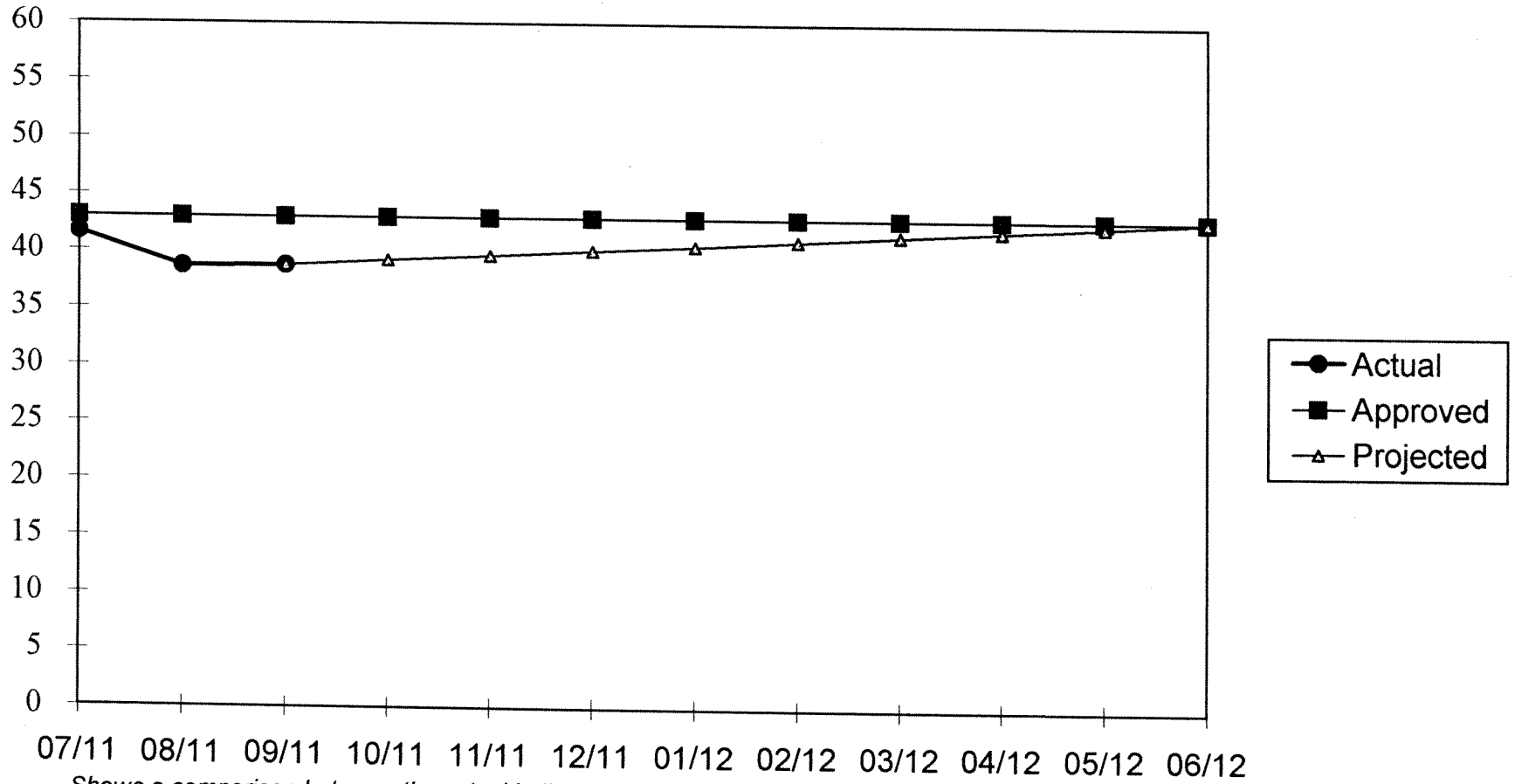
ABAG Financial Indices

Figure 6--*Indirect Cost Rate (% of Direct Labor Cost)*
FY 11-12

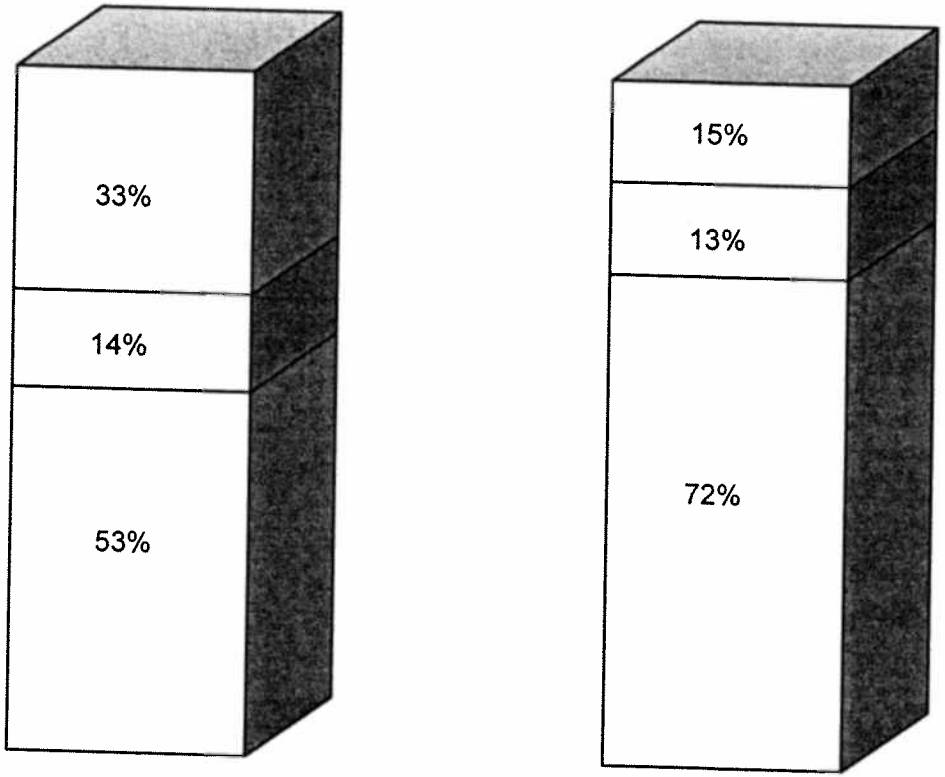


Shows a comparison between the actual indirect cost rate and the approved rate. The approved indirect cost rate is computed by dividing total estimated overhead expenses by total projected direct labor cost for a fiscal year. This rate is used as a standard overhead cost rate to allocate indirect costs to all projects. This process is performed in accordance with an indirect cost plan, which is prepared annually in accordance with OMB Circular A-87.

Source: ABAG- INDICES 2011-09.xls

ABAG Financial Indices

Figure 7-- Composition of Expenses FY 11--FY 12
Year to Date
($'000)



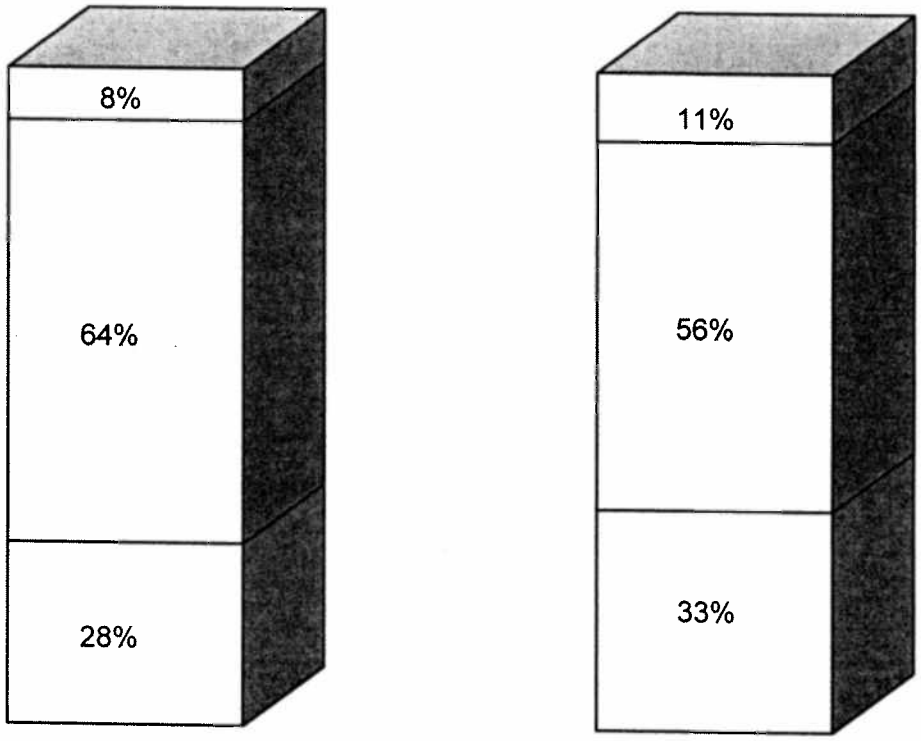
	FY11-12 Expenses (Total $5,170)	FY10-11 Expenses (Total $4,065)
☐ Consultants	$1,688	$602
☐ Others	$732	$550
☐ Payroll	$2,750	$2,913

This chart compares expenses for current and prior fiscal year. It groups expenses into three broad categories--payroll costs, consultants and other expenses.

Source: ABAG -INDICES 2011-09.xls

ABAG Financial Indices

Figure 8-- Composition of Revenues FY 11--FY 12
Year to Date
($'000)



	FY 11-12 Revenue (Total $5,440)	FY 10-11 Revenue (Total $4,009)
☐ Membership	$433	$421
☐ Grants	$3,504	$2,247
☐ Services & Others	$1,503	$1,341

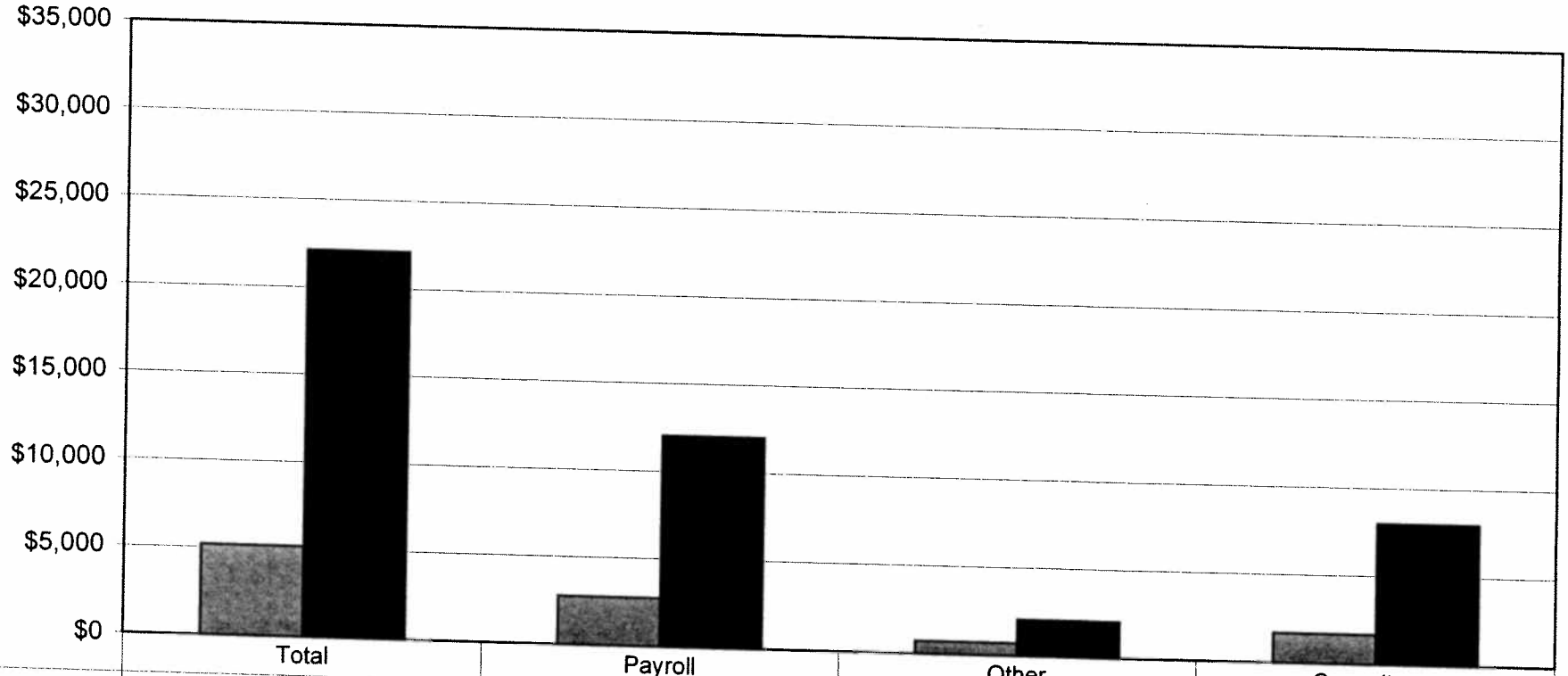
Presents a breakdown of total revenues into four main sources--membership, grants, services and others. This chart compares revenue sources between current and prior fiscal year.

Source: ABAG --- INDICES 2011-09.xls

ABAG Financial Indices

Figure 9--*Actual vs Budgeted Expenses--FY 11-12*

Year to Date ($'000)



	Total	Payroll	Other	Consultants
Actual	$5,170	$2,750	$732	$1,688
Budgeted	$22,098	$12,030	$2,068	$8,000

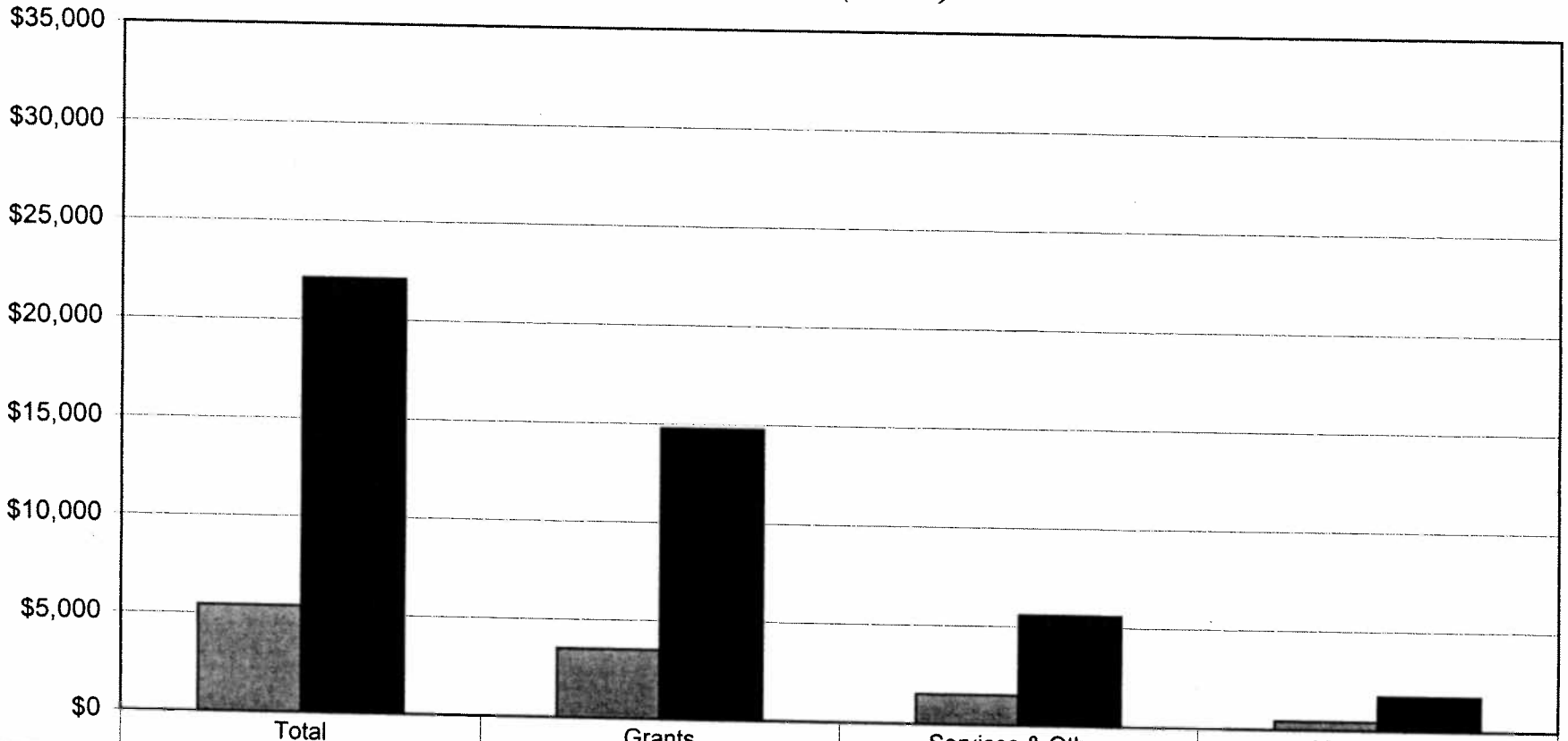
Presents a comparison of actual and budgeted/projected total expenses as well as component categories: payroll costs, consultants and other expenses.

Source: ABAG -- INDICES 2011-09.xls

ABAG Financial Indices

Figure 10--*Actual vs Budgeted Revenues--FY 11-12*

Year to Date ($'000)



	Total	Grants	Services & Other	Membership
Actual	$5,440	$3,504	$1,503	$433
Budgeted	$22,098	$14,767	$5,600	$1,731

Presents a comparison of actual and budgeted/projected total revenues as well as component categories: membership dues, grants, services and other.

Source: ABAG --INDICES 2011-09.xls

ASSOCIATION OF BAY AREA GOVERNMENTS
FINANCE & PERSONNEL COMMITTEE

TABLE OF FINANCIAL REPORT DATA ELEMENTS
(thousands of dollars)

Index Description	Sep-11	Aug-11	Jul-11	Sep-10	Aug-10
Cash	3,069	3,443	2,875	1,721	2,564
Receivables	3,697	3,216	4,631	3,062	2,434
Payroll Cost-YTD	2,750	1,877	1,036	2,913	1,910
-Month	873	841	1,036	1,003	882
Total Other Expense-YTD	2,420	1,041	251	1,152	603
-Month	1,379	790	251	549	469
Total Expenses-YTD	5,170	2,918	1,287	4,065	2,513
-Month	2,252	1,631	1,287	1,552	1,351
Total Revenues-YTD	5,440	3,097	1,138	4,009	2,445
-Month	2,343	1,959	1,138	1,564	1,415
Fund Equity-General	1,349	1,258	930	964	954
Total Restricted	560	560	560	510	510
Total Fund Equity	1,909	1,818	1,490	1,474	1,464
Approved Overhead	42.95%	42.95%	42.95%	42.95%	42.95%
Overhead Rate %	38.73%	38.66%	41.62%	45.53%	47.62%

ASSOCIATION OF
BAY AREA GOVERNMENTS

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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ASSOCIATION OF BAY AREA GOVERNMENTS
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITORS' REPORT

The Executive Board
Association of Bay Area Governments
Oakland, California

We have audited the basic financial statements of each major fund of the Association of Bay Area Governments (Association) and its discretely presented component unit for the year ended June 30, 2011, which collectively comprise the Association's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards for 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 as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial position of each major fund of the Association and its discretely presented component unit at June 30, 2011, and the respective results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011 on our consideration of the Association of Bay Area Governments' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maze & Associates

October 7, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Association of Bay Area Governments (Association) has issued the financial reports for fiscal year ending June 30, 2011 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 Assets—provides information about the financial position of the Association, including assets, liabilities and net assets. The difference between this statement and the traditional Balance Sheet is that net assets (fund equity) are shown as the difference between total assets and total liabilities.
2. Statement of Activities—presents revenues, expenses and changes in net assets 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 2011 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Association's total assets were $9.02 million at June 30, 2011. At June 30, 2010, total assets were $6.54 million. This increase is due to a $1.62 million increase in grants receivables and a $1.07 million increase in cash and cash equivalents. These significant increases were partially offset by reductions in interest earned, prepaid

expenses and net capital assets summing to about $210 thousand. The increase in grants receivable is attributed to the influx in grant activity associated with several newly introduced energy retrofit and energy demonstration projects. The increase in cash and cash equivalents is largely attributed to an increase in advances recorded as unearned income.

- The Association's total program revenues, were $21.10 million in FY 2011, while total program expenses were $22.94 million. This imbalance ($1.84 million) is offset by $1.68 million in Membership Dues, $232 thousand in unrestricted donations, and $7 thousand in interest income, all recorded as General Revenues summing to $1.92 million.

- The Association's total net assets increased $74 thousand in FY 2011 to a new total of $2.05 million at June 30, 2011. This figure includes Restricted Net Assets of $190 thousand in the BALANCE Foundation.

- ABAG program operating revenues were $20.9 million in FY 2011, while ABAG Finance Corporation operating revenues were less than $1 thousand and BALANCE Foundation operating revenues were $194 thousand.

- ABAG program operating expenses were $22.61 million in FY 2011, while ABAG Finance Corporation operating expenses were $8 thousand and BALANCE Foundation operating expenses were $316 thousand.

- Non-operating revenues (General Revenue) and expense yielded a net gain of $1.92 million in total, of which $1.68 million is membership dues, $232 thousand was in unrestricted donations ($140 thousand to ABAG and $92 thousand to BALANCE Foundation) and $7 thousand in interest income. In previous years, membership dues were reflected under Operating Revenues.

- ABAG net assets were $1.64 million at June 30, 2011, while ABAG Finance Corporation net assets were $52 thousand and BALANCE Foundation net assets were $355 thousand at that date.

- The San Francisco Bay Restoration Authority reflects the receipt and expense of $125 thousand in grants. The funds were used to gauge the desire of potential voters to support Bay Area restoration.

CAPITAL ASSETS

At June 30, 2011, the Association had $1.01 million in capital assets, net of accumulated depreciation, a decrease of $71 thousand from the year prior. The change from the prior year is attributable to the conversion of the "office renovation" from "in progress" to full capital assets and the resultant increase in depreciation expense of some $70 thousand associated with that transfer. 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 2011 was reduced in the amount of $101 thousand through the payment of $47 thousand of the $183 thousand owed for the

seismic retrofit of the MetroCenter at the beginning of the fiscal year and a payment of $54 thousand toward the $674 thousand owed for the office improvement project at the beginning of the year. This left balances of $136 thousand and $620 thousand for the two projects, respectively. Of the $756 thousand debt outstanding at the end of the year, $103 thousand is classified as current portion. There was no new debt incurred.

MAJOR PROGRAM INITIATIVES IN FY 2011 AND OUTLOOK FOR FY 2012

We are happy to report the following accomplishments in fiscal year 2011 and goals for fiscal year 2012:

Planning & Research Programs

The formerly separate Planning Programs and Research, Data and Analysis Program were reorganized into one Planning & Research Programs section to facilitate their coordination and integration as they focus on a comprehensive Sustainable Communities Strategy.

Building upon fifty years of regional planning efforts, the Planning and Research Programs will advance a comprehensive development strategy in collaboration with local jurisdictions and regional partners that responds to the environmental, economic and equity challenges of the region today. Recognizing the links between focused growth and transportation infrastructure, these Planning and Research Programs will secure funding to support the development of neighborhoods that provides for the needs of existing and future residents, is resource conserving and socially equitable, and brings new vitality to our communities. Planning and Research Programs will also involve work with key partners including public resource agencies, local governments, and the region's land and water conservation agencies to secure funding and advance permanent protection of natural resources and rural areas.

Mandated by state legislation (SB375), the Sustainable Communities Strategy (SCS) provides a solid platform to integrate regional land use and transportation planning. This strategy will lead to the reduction of greenhouse gas emissions and housing all economic sectors of the population in the Bay Area.

1. The San Francisco Bay Area's regional Blueprint Plan is known as FOCUS, an integrated regional development and conservation strategy designed to map a more positive approach to future growth in the San Francisco Bay Area. FOCUS has been led by ABAG in partnership with the Metropolitan Transportation Commission (MTC) and with support from the Bay Area Air Quality Management District and the Bay Conservation and Development Commission. FOCUS is a collaborative effort that links regional planning programs with planning and implementation being advanced at the local and subregional level by local governments, congestion management agencies, transit providers, and non-governmental organizations throughout the Bay Area. FOCUS has emerged as an integral part of ABAG and MTC's regional land-use and transportation planning

programs and has served as a mechanism for advancing synergies between various planning efforts across the Bay Area. The Sustainable Communities Strategy is built upon the FOCUS Program, including the Priority Development Areas and Priority Conservation Areas.

2. Priority Development Areas (PDAs) are transit-served, infill areas where there is either an adopted neighborhood-level plan that will accommodate housing in a mixed-use context or a vision to create such a plan at the local level. *Projections 2009* forecast that more than two-thirds of the region's growth through 2035 could be accommodated in the PDAs, despite the fact that PDAs encompass only three percent of the region's land area. There are now more than 130 PDAs in 60 Bay Area jurisdictions. In collaboration with local jurisdictions, FOCUS provides a link between local plans and regional agency objectives relative to where new growth should be directed.

3. Nearly 100 Priority Conservation Areas, areas of regional significance that have broad community support and an urgent need for protection, have been adopted by the ABAG Executive Board. Planning and Research Programs has continued to work with the State Coastal Conservancy and other land conservation entities, including private foundations, to secure new funding and direct existing funding to preserve the region's PCAs.

4. Through the Regional Planning Committee (RPC), one of the standing committees of the ABAG Executive Board, staff continued to work with member jurisdictions and other stakeholders on issues and solutions with affordable housing, education, environmental protection, the home building industry, and smart growth. The RPC embarked on a significant effort pertaining to Regional Recovery Planning which pertains to the period from six month to several years after a major disaster. The RPC has been developing and expanding expertise from a policy perspective on important issue that will need to be addressed following a major event. A significant new initiative the RPC is reviewing pertains to regional recovery planning; recovery planning pertains to the period from six months to several years after a major disaster.

5. Continued to work with the Regional Airport Planning Commission (RAPC), a joint committee of ABAG, the Metropolitan Transportation Commission (MTC), and the Bay Conservation and Development Commission (BCDC), on the preparation of the Regional Airport Systems Analysis, which then becomes part of the Regional Transportation Plan. RAPC also provides a forum for discussion of land use, non-air transportation, and environment issues related to airports.

6. Through its Clearinghouse program, continued to provide information to public and private agencies and the public related to public capital improvement projects and their potential environmental impacts. ABAG has continued to streamline the operation of the clearinghouse providing improved access to and distribution of public review documents.

7. Work commenced to update the Regional Housing Needs Allocation (RHNA) for 2014-2022. While there are many similarities to the previous rounds of the RHNA process, it has become more complex because of the requirements for consistency with the SCS. This coordination is an opportunity for progress on housing issues in the region. This round of the RHNA process provides further opportunities to support local areas where housing makes sense. The RHNA process will run in parallel with the SCS and Regional Transportation Plan. The distribution of housing needs will inform the Detailed SCS Scenarios.

8. One of the most technical projects has been the development of a new land use model to estimate development in local areas. Our model, called Steelhead, uses land use, local planning and economic information to perform a sophisticated statistical analysis. Local socioeconomic activities are matched with land use development. The model is also trying to match transportation models more effectively. Efforts will continue to improve the data, computer models, and other tools used in our analysis and planning.

9. Substantial effort has been invested to improve information on the existing housing development, costs of construction, and commercial and residential rents in the region. Understanding of existing construction and information on costs of development and local plans are fundamental to making reliable forecasts and performing thoughtful planning.

In fiscal year 2012 the Planning and Research Programs will:

Work with local communities, State government, regional agency partners, congestion management agencies and the non-profit community to develop the Sustainable Communities Strategy and identify and provide for an expanding range of incentives to support the implementation of this strategy. Incentives will be provided on a competitive basis to jurisdictions that seek to advance and prioritize development in areas that are served by public transit, and that provide proximity to employment centers. ABAG will work cooperatively with state resource agencies, local governments, and regional open space entities to advance the protection of the region's priority conservation areas. ABAG will assist in advocating for policies and legislative actions that will advance the agenda of a sustainable and resilient Bay Area.

1. Prepare detailed development scenarios for the Sustainable Communities Strategy.

2. Support the County/Corridors dialogue on the Sustainable Communities Strategy.

3. Develop the methodology for the Regional Housing Need Allocation.

4. Coordinate the Sustainable Communities Strategy with the Regional Housing Need Allocation and the Regional Transportation Plan. Work on the Regional Housing Need Allocation for 2014-2022.

5. Draft the scope of work for the Environmental Impact Report for the Sustainable Communities Strategy and the Regional Transportation Plan.

6. Manage Station Area Planning efforts in more than 20 PDAs.

7. Provide Technical Assistance to PDAs.

8. Identify model infrastructure projects in PDAs for Transportation for Livable Communities (TLC) program funding.

9. Complete the assessment of Planned PDAs on planning efforts, market conditions, and complete communities qualities (e.g. transit service, schools, urban parks, services, equity issues, public health).

10. Establish a tracking system and coordinate funding efforts pertaining to the PCAs.

11. Continue to work with the Regional Planning Committee and will work to facilitate the Committee in addressing policy issues and forwarding the Committee's recommendations to the ABAG Executive Board on important regional planning issues including considerations relative to implementation of FOCUS, development of the Sustainable Communities Strategy Scenarios, and issues related to regional recovery planning for the Bay Area.

12. Continue its clearinghouse functions including tracking of public projects to allow review and discussion of regionally significant projects.

13. Staff and provide leadership to advance the Regional Airport Planning Committee's work program.

14. Through Intergovernmental Coordination, expand upon previous efforts to advance the Agency's role in coordinating regional and local planning initiatives in the Bay Area.

15. Continue to improve the data used in analysis and planning. Improve computer models and other tools used to analyze information and identify planning strategies.

Hazardous Waste Allocation/Bay Area Green Business Program

Since 1990, the Hazardous Waste Management Facility Allocation Committee has developed innovative programs to serve our members and partners as well as Bay Area residents and businesses. In 1996, the Committee began to focus on reducing the amount

of hazardous wastes generated. In partnership with federal, state and regional agencies, the Committee launched the Bay Area Green Business Program, the first comprehensive environmental certification for small businesses in the country. This award-winning program assists and recognizes businesses that comply with environmental laws and implements dozens of additional measures to prevent pollution, conserve resources, reduce waste and shrink their carbon footprints.

1. Through the Hazardous Waste Management Facility Allocation Committee, a committee comprised of county representatives, continued to oversee the implementation of a "fair share" allocation process for hazardous waste management facilities; coordinate the Bay Area Green Business Program; and identify new opportunities to reduce the amount and ensure proper management of hazardous wastes.

2. ABAG staff analyzes the wastes generated in the region, and develops waste-reduction recommendations for Committee review. Current initiatives include support for Extended Producer Responsibility to shift the responsibility for safe management of spent batteries, fluorescent lights, pharmaceuticals, computers, and similar products away from local governments and back to manufacturers.

3. As a complement to California's Green Chemistry initiative, the Committee has organized workshops on Environmentally Preferable Purchasing.

4. Lobbied the California Legislature to pass legislation that would extend the Green Business Program state-wide. Within the Bay Area, 2,300 Green Businesses have now been recognized.

In fiscal year 2012 the Hazardous Waste Allocation/Bay Area Green business Program will:

1. Monitor and advise the Legislative and Governmental Organizations Committee on legislative and other efforts to implement Extended Producer Responsibility.

2. Host a workshop for government purchasing staff to speed implementation of Environmentally Preferable Purchasing programs.

3. Increase the number of certified green businesses in the Bay Area to 2,600.

4. Complete development of a web-based measurement system to streamline the process and track the environmental benefits of Green Business participation.

San Francisco Bay Trail

The San Francisco Bay Trail is a planned, continuous 500-mile shoreline path along the edge of San Francisco Bay that will form a trail system crossing seven toll bridges and connecting nine counties, 47 shoreline cities and over 130 local, regional and state parks.

ABAG administers the Bay Trail Project that plans, promotes and advocates for implementation. Project staff provides regional oversight and coordination, technical assistance, education and outreach, and seek funding for planning, design, construction and maintenance. Regional collaboration has resulted in the completion of 300 of the planned 500 miles of recreational and alternative commute routes around the Bay. All cities and counties the trail passes through support this monumental endeavor and park and open space districts, transit agencies, advocacy organizations, and public works departments have joined forces to complete this spectacular vision of a "ring around the bay."

1. In 2010, the Bay Trail celebrated completion of the 300th mile and closed several significant Bay Trail gaps, including 2.4 miles behind Moffett Field between Sunnyvale and Mountain View resulting in 26 continuous miles of shoreline trail; the Bill Lockyer Bridge over San Leandro Slough completing a 20-mile stretch of trail between Oakland and Hayward; and adoption of a new official Bay Trail alignment in Sonoma, Napa and Solano counties binging the Bay Trail closer to the edge of San Pablo Bay.

2. Several commemoration events were conducted to celebrate the San Francisco Bay Trail accomplishments over its first 20 years.

In fiscal year 2012 the San Francisco Bay Trail will:

1. Work to complete the remaining Bay Trail gaps by ensuring that the trail is incorporated into project designs and constructed.

2. In partnership with the Coastal Conservancy, solicit, review and award grants to local jurisdictions for planning, design and construction of Bay Trail segments under the $6 million grant program provided through Proposition 84.

3. Administer awarded Bay Trail planning, design and construction grant contracts.

4. Share implementation responsibilities with the Coastal Conservancy to advance the completion of the San Francisco Bay Area Water Trail.

5. Continue to update and use the Gap Analysis Study data to identify and initiate new spending opportunities and new Bay Trail grants.

6. Pursue short and long-term funding strategies for project administration, trail development and maintenance.

7. Finalize opportunities for new Bay Trail segments through continued participation in the South Bay Salt Pond Restoration Planning Process.

8. Work as a member of the San Francisco Bay Restoration Authority Advisory Committee to identify funding opportunities for future wetland restoration and public access projects.

9. Continue to work with ABAG's FOCUS program and the Metropolitan Transportation Commission's Regional Transportation Plan to highlight trails as components of a sustainable region and a regional transportation system.

10. Advocate for bicycle and pedestrian access to and across Bay Area toll bridges, including the west span of the Bay Bridge and the Richmond-San Rafael Bridge as well as safe and seamless connections to the Carquinez, Benicia-Martinez and East Span Bay bridges.

11. Install Bay Trail signs along all complete sections of the Bay Trail.

12. Continue to update the Bay Trail website to create a valuable resource for regional partners and the public about progress of the Bay Trail.

13. Publish the *Bay Trail Rider* newsletter; meet regularly with elected officials, agency and local government staff and media contacts; and plan and host trail dedications and other public events.

San Francisco Estuary Program (SFEP)

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

1. Contracted with many local jurisdictions to assist with trash capture efforts helping to make streams and the bay cleaner and healthier for people, fish and wildlife.

2. Partnered with the City of El Cerrito to build green stormwater treatment devices along San Pablo Avenue and applied for funds to continue that work all along the San Pablo Avenue corridor.

3. The City of Pinole, under an agreement with the Partnership, commenced construction of the Pinole Greenway Restoration project.

4. Organized and managed the highly successful Bay Delta Conference held in Sacramento, October 2010.

5. Developed methods to reduce methyl mercury and low dissolved oxygen in Suisun Marsh.

6. Developed, in partnership with BCDC, the California Coastal Conservancy, and NOAA, the San Francisco Bay Subtidal Habitat Goals, a major report and effort to establish a comprehensive and long term management vision for protection, restoration, and appropriate use of San Francisco Bay Subtidal habitats.

7. Under the State's Watershed Assessment Framework, developed watershed health indicators for the San Francisco Estuary. These indicators form the core of the 2011 State of the Estuary Report, a major effort initiated in January 2011.

8. Continued to work on over 50 projects directed at improving the health of the estuary (see www.sfestuary.org for details).

9. Public outreach efforts continued to expand with production of new fact sheets, the continued publication of the well-regarded Estuary newsletter, the addition of 133 podcasts to the SFEP website, and speaking engagements by staff to various local organizations.

In fiscal year 2012 the San Francisco Estuary Project and partners will:

1. Celebrate the 10th Biennial State of the Estuary Conference in September, 2012, with the release of a new estuary-wide assessment about the health of the Bay environment. The Partnership will continue to focus efforts on projects that help to restore and protect natural resources.

2. 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.

3. Develop the background and assessments for a new evaluation of the environmental state of the bay and estuary which will result in a major new report planned for late 2011.

4. Work with partners, implement develop new low impact development concepts to clean urban stormwater; and implement restoration projects in San Francisco and the shoreline and bed of the Bay.

5. Provide technical support services to the Santa Clara Valley Water District, Alameda County Flood Control Program, CalTrans, and the San Francisco Public Utilities Commission.

6. Provide technical and communication assistance to the State Water Board including development and implementation assistance for Total Maximum Daily Loads (limiting pollutants into waterways of the State), and oversight of environmental projects mandated as part of the San Francisco Regional Board's Administrative Civil Liability program in lieu of fines.

7. Perform outreach/education through the Boater Education Program, publication of *Estuary* newsletter, and website podcasts on a variety of topics.

8. Manage a $5 million regional trash capture project with dozens of cities from around the regions.

9. Continue work on 28 projects, including seven new projects related to water quality improvements in the North Bay; and under three EPA-funded grants to implement bay-wide ecosystem improvement to improve San Francisco Estuary water quality.

10. Continue to support the Bay-Delta Science Program by contracting with experts to assist in the scientific research to support delta restoration efforts.

11. Partner with SPAWN and the Mid-Peninsula Regional Open Space District to implement sediment reduction projects including rural road repair and stream bank stabilization in the North and South Bay.

12. Work with the Urban Pesticide Committee and EcoWise to reduce pesticide use in urban creeks and promote Integrated Pest Management practices.

Earthquake and Hazards Mitigation and Recovery

Since 1974, ABAG has been involved in earthquake hazard mapping for the Bay Area, developing some of its own hazard maps in collaboration with U.S. Geological Survey. The Earthquake and Hazards Mitigation Program has been a leader among Councils of Governments across the nation in providing scientific information about local hazards in a user-friendly format to guide public decision making. ABAG focuses its efforts on disaster mitigation and recovery planning.

1. Launched a redesigned program website at http://quake.abag.ca.gov featuring a more user-friendly design, revised hazard map explanations, improved risk communication techniques, and user specific portals, funded by U.S. Geological Survey.

2. Updated the multi-jurisdictional Local Hazard Mitigation Plan for the San Francisco Bay Area, including collaborating with 115 cities, counties and special districts to ensure that the revised plan incorporates the findings of the disaster recovery initiatives and makes stronger connections between hazards, vulnerabilities and mitigation strategies to address them.

3. Developed a regional Long-Term Disaster Recovery Council to be housed at ABAG to plan for the efficient recovery of the Bay Area after a major disaster and retain residents and jobs.

4. Developed a model disaster recovery plan, using the Cities of Oakland and San Jose as pilot projects funded in part by the two cities.

In fiscal year 2012 Earthquake and Hazards Mitigation and Recovery will:

1. Continue on-going project efforts related to developing innovative approaches to hazard mitigation and updating the multi-jurisdictional Local Hazard Mitigation Plan.

2. Seek to continue to assess the vulnerability of soft-story multi-family residential buildings in the Bay Area, and continue to develop innovative approaches for mitigation, and implement these mitigation strategies.

3. Seek to provide incentives to single-family homeowners for seismic retrofit, develop a contractor training program and a public information campaign about proper retrofit technique.

4. Develop a regional recovery plan focusing on developing a post-disaster governance structure and a pre-disaster decision making framework to ensure a speedy recovery of the region after a major disaster.

5. Plan for the long-term recovery of the regional airport system from a disaster, focusing on general aviation airports and the infrastructure such as water, fuel, roads and transit serving all the region's airports.

ABAG Publicly-Owned Energy Resources (POWER)

ABAG Publicly Owned Energy Resources (ABAG POWER) is a joint powers agency (JPA) formed by ABAG 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 and ABAG POWER are also working to expand their energy conservation and management services to local jurisdictions through the implementation of energy efficiency, renewable energy, and general sustainability programs.

1. Completing its fourteenth year of operation, ABAG POWER's natural gas purchasing pool continued to strive for the twin goals of both cost savings and price stability. ABAG POWER stabilizes its gas prices by layering in longer term gas purchases, with the alternate objective of diversifying its gas purchase portfolio, using a continuous three-year ahead planning cycle to design its purchasing strategy.

2. During the past year, ABAG, utilizing the expertise of the ABAG POWER program manager, has been awarded close to $20 million in grant-funded energy projects. In collaboration with PG&E, ABAG secured the GHG Inventory

Assistance grant that will be used to assist local governments to complete an inventory of their greenhouse gases resulting from municipal operations in accordance with the Local Government Operations Protocol; as well as the Energy Use Benchmarking project where ABAG will provide training and on-going assistance to encourage local governments to benchmark their facilities in energy use intensity. Other grants include the Retrofit Bay Area (Energy Upgrade California) for which ABAG is the lead agency for an eight-county collaborative that seeks to increase the number of energy efficiency retrofits in residential homes in the Bay Area; and the DOE Better Buildings Program in which ABAG is a subcontractor to Los Angeles County as part of the statewide *Better Buildings Program*—four Bay Area agencies (Alameda County, San Francisco, San Jose, Sonoma County) will implement various energy efficiency retrofit projects..

3. ABAG is continuing to seek and develop customer friendly pathways to coordinate and synergize energy efficiency retrofits, renewable energy installations, incentives, and financing mechanisms.

In fiscal year 2012 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 of improving the customer service aspects of the program, in particular with respect to billing and analysis functions.

3. Although ABAG POWER primarily supplies natural gas to smaller "core" customers, it also implements a "noncore" program to supply larger facilities. Qualified, noncore customers can take advantage of lower gas transportation rates that are not available to PG&E customers. ABAG POWER currently supplies gas to three noncore facilities (City of Santa Rosa, City of Watsonville, and County of Sam Mateo). Efforts will continue to encourage additional participants in both the core and noncore programs.

4. Will continue to explore partnerships and seek grants to provide more energy efficient programs throughout the greater Bay Area. Grants being sought include charging stations for electrical vehicles, development of a region-wide web site and call center to obtain energy efficiency information and information about local and regional programs, efforts to stimulate more energy efficient homes, surveying city energy usage, and others where ABAG can be the fiscal agent for region-wide applications to continue grants already in progress.

Insurance Pool Programs

Organized in 1986, the ABAG Pooled Liability Assurance Network (ABAG PLAN) Corporation provides property, liability and crime coverage to 31 cities and towns in the Bay Area. ABAG PLAN has grown to exceed $47 million in assets and has returned over $20 million in dividends to its members. ABAG PLAN has saved its members over $70 million in premium since inception. ABAG also administers the ABAG Comp Shared Risk Pool (SHARP) that provides Workers' Compensation coverage to its members.

1. Through PLAN's continuing Risk Management grant programs, assistance has been provided to members in implementing loss control techniques to reduce losses in public playground, parks, police operations and those related to sidewalks, sewers, and trees.

2. Since 1989, the ABAG Comp Shared Risk Pool (SHARP) has continued to offer affordable workers compensation coverage to its four local government jurisdictions by pooling losses up to $250,000 and purchasing pooled coverage and reinsurance for larger losses.

In fiscal year 2012 the Insurance Pool Programs will:

1. Provide stable loss funding rate for the Liability Program.

2. Provide stable premium and broad coverages for the Property Program.

3. Continue to manage the ITC portfolio for pre July 1, 2008 claims.

4. Implement on-line client access to the iVOS claims system.

5. Continue aggressively pursuing subrogation opportunities which will reduce "net" loss and save members significant dollars.

6. Continue ongoing claim file reviews for member cities.

7. Provide a broad range of training focused on the unique needs of members.

8. Continue the award-winning SewerSmart Summit program and expand to include Storm Water Management.

9. Provide grants supporting Risk Management Best Practices and Loss Control.

10. Increase focus on managing ADA risks for member cities.

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.

1. To date, ABAG Financial Services has provided nearly $8 billion in low cost capital financing for projects in more than 240 California government jurisdictions.

2. 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.

3. The Agency takes special focus on assisting in the construction and preservation of affordable housing, providing financing to date for more than 10,330 housing units in nearly one-hundred affordable apartment communities.

In fiscal year 2012 ABAG Financial Services will:

1. Provide economical funding for developers of affordable multi-family housing, independent schools, hospitals, clinics, and other voluntary healthcare providers through the various programs.

2. Provide Tax-Exempt Lease financing through ABAG Credit Pooling and ABAG Leasing programs. Provide the lowest available cost source for funding for both major lease secured projects and smaller capital equipment needs.

3. Continue to offer comprehensive services to meet the land-secured and economic development financing needs of member agencies.

4. Continue to offer its industry leading tax-allocation bond product benefitting the Redevelopment Agencies of its membership, and its pooled financing vehicle for Water and Wastewater Districts. Both of these financing pools provide easy access and low cost funding for the smaller borrowing needs of special districts in the Agency's member 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 required by the Occupational Safety and Health Administration (OSHA) and the 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.

1. 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.

2. Over the last fiscal year, the program has continued the practice of refreshing course material to keep it up to date and performing small technical changes to make the training experience easier for users as well as their supervisors and corporate training coordinators.

3. Affiliation with the U.S General Services Administration (GSA) was renewed, facilitating marketing to Federal Agencies and Departments.

In fiscal year 2012 ABAG Training Center will:

1. Explore expansion into other markets, specifically courses for General Contractors.

2. Add new courses and industry-specific versions of existing courses in order to be ready when companies begin hiring new employees.

3. Ensure the technical infrastructure is in place to accommodate future growth.

4. Strive, as the program grows, to maintain personalized service and a worthwhile training experience for members and clients.

ABAG Web Services

The ABAG website (www.abag.ca.gov) dates back to 1994 and represents the first website for a council of governments and the second for a California public agency. In addition to expanding the reach of ABAG programs, the early move to the web provided an opportunity to support members and other public agencies as they made similar moves.

1. The online Geographical Information System (GIS) allows the public to obtain information by clicking locations on maps, such as earthquake hazard maps.

2. To better serve clients with publication purchases, class or workshop registration, the Association uses an electronic merchant software system. This level of automation has automated processing of higher volume orders from clients and saved staff cost.

In fiscal year 2012 ABAG Web Services will:

1. Increase focus on ABAG programs and affiliated projects. ABAG's leadership will be maintained by improving usability and adding collaboration features to facilitate increased interaction among staff, elected officials, citizens, and other stakeholders.

2. Continue to offer web services that provide a stable and cost-effective option to agencies expanding or simply reassessing their web strategy.

Legislative Activities

1. ABAG's Legislation and Governmental Organization (L&GO) Committee, which is composed of elected officials from throughout the region, is a subcommittee of the ABAG Executive Board. 2010 legislative priorities included a concerted pursuit of resources and incentives for ABAG planning and support for integrated planning and environmentally healthy communities. An important part of ABAG's legislative outreach centered on briefing legislators early in the bill process on these regional priorities and proposed solutions.

2. Of the legislation tracked by L&GO, eight of the bills became law and three were vetoed.

3. Legislation considered in 2009 reflected the full range of Committee legislative priorities: addressing local planning, infill and redevelopment issues; clarifying sustainable communities strategies and relationship to transportation and land use planning; securing regional blueprint funding as well as community development, planning and transportation fees. Special bills, also considered, included improvement of gun tracing and prohibiting the open carrying of unloaded handguns; extended producer responsibility and disposal of household batteries, lighting products, carpets, architectural pain, and motor vehicle brake pads; hazard mitigation and seismic safety retrofit regional planning, climate change and renewable energy policies; and local government policies on unemployment, insurance, and pensions.

4. Committee activities throughout the year included policy briefings, a legislative reception, and face-to-face work with legislators about Bay Area needs and challenges.

In fiscal year 2012 Legislative Activities will:

1. Continue to pursue state and federal legislation addressing focused integrated planning and environmentally healthy communities.

2. Work with legislators on developing a stable source of income for regional planning agencies that include innovative financing and resources and incentives for planning, infrastructure, and services to assist local governments.

3. Continue to closely monitor finance reform and the fiscal impacts of potential unfunded mandates on local government.

San Francisco Bay Restoration Authority

1. Secured two grants to survey the public regarding priorities and funding alternatives.

2. Secured legislative changes to clarify enabling language and the ability to garner region-wide voter approval across county boundaries.

In fiscal year 2012 the Authority will:

1. Continue to seek grant funding to advance restoration and preservation of the Bay.

2. Continue to update a strategic prioritization of preservation and restoration projects.

3. Develop a preferred methodology for obtaining voter support for a secure funding base.

4. 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.

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.

ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
ASSETS					
Current Assets					
Cash and Investments (Note 2):					
Cash and Cash Equivalents	$1,924,311	$31,302	$501,643	$2,457,256	
Receivables:					
Federal, State and Local Grants	5,356,214			5,356,214	
Interest	925		370	1,295	
Prepaid Expenses and Other	178,273	20,339		198,612	
Total Current Assets	7,459,723	51,641	502,013	8,013,377	
Noncurrent Assets					
Capital Assets, Net of Accumulated Depreciation (Note 3)	1,007,042			1,007,042	
Total Assets	8,466,765	51,641	502,013	9,020,419	
LIABILITIES					
Current Liabilities					
Accounts Payable	3,173,908		8,456	3,182,364	
Compensated Absences (Note 1E)	171,691			171,691	
Other Accrued Liabilities	754,830			754,830	
Current Portion of Long-Term Obligations (Note 4)	103,099			103,099	
Unearned Revenue	1,616,319		138,363	1,754,682	
Total Current Liabilities	5,819,847		146,819	5,966,666	
Noncurrent Liabilities					
Compensated Absences, Noncurrent (Note 1E)	354,524			354,524	
Long-Term Obligations, Net of Current Portion (Note 4)	653,039			653,039	
Total Noncurrent Liabilities	1,007,563			1,007,563	
Total Liabilities	6,827,410		146,819	6,974,229	
NET ASSETS (Note 7)					
Investment in Capital Assets, Net of Related Debt	250,904			250,904	
Restricted			190,234	190,234	
Unrestricted	1,388,451	51,641	164,960	1,605,052	
Total Net Assets	$1,639,355	$51,641	$355,194	$2,046,190	

See accompanying notes to basic financial statements

ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
PROGRAM REVENUES					
Operating Grants and Contributions:					
Grants	$15,522,595		$138,747	$15,661,342	$125,000
Donations - Restricted for Internship Program			17,700	17,700	
Subtotal	15,522,595		156,447	15,679,042	125,000
Charges for Services					
Reimbursements	5,315,158	$647	38,100	5,353,905	
Other	62,970			62,970	
Subtotal	5,378,128	647	38,100	5,416,875	
Total Program Revenues	20,900,723	647	194,547	21,095,917	125,000
PROGRAM EXPENSES					
Salaries and Related Benefits	11,072,490			11,072,490	
Consultant Services	9,395,502	8,167	239,923	9,643,592	125,000
Equipment, Maintenance and Supplies	221,651			221,651	
Outside Printing Costs	83,237		188	83,425	
Conference and Meeting Costs	348,050		47,500	395,550	
Depreciation	181,666			181,666	
Building Maintenance	241,683			241,683	
Postage	46,976			46,976	
Insurance	141,160			141,160	
Telephone	56,390			56,390	
Utilities	89,241			89,241	
Committee	87,225			87,225	
Other	589,633		28,002	617,635	
Interest Expense	58,772		45	58,817	
Total Program Expenses	22,613,676	8,167	315,658	22,937,501	125,000
Net Program Operating Income (Loss)	(1,712,953)	(7,520)	(121,111)	(1,841,584)	
GENERAL REVENUES					
Membership Dues	1,676,290			1,676,290	
Donations - Unrestricted	139,660		92,240	231,900	
Interest Income	5,353	52	1,838	7,243	
Total General Revenues	1,821,303	52	94,078	1,915,433	
Change in Net Assets	108,350	(7,468)	(27,033)	73,849	
Beginning Net Assets	1,531,005	59,109	382,227	1,972,341	
Ending Net Assets	$1,639,355	$51,641	$355,194	$2,046,190	

See accompanying notes to basic financial statements

ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
CASH FLOWS FROM OPERATING ACTIVITIES					
Grant receipts	$14,521,957		$277,110	$14,799,067	
Receipts from customers and members	7,131,108	$647	148,040	7,279,795	
Payments to contractors and members	(9,344,544)	1	(320,445)	(9,664,988)	($125,000)
Payments to employees	(11,059,371)			(11,059,371)	
Payments to committees	(87,225)			(87,225)	
Other receipts (payments)	62,970			62,970	
Net cash flows from operating activities	1,224,895	648	104,705	1,330,248	(125,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Repayment of long-term obligations	(101,311)			(101,311)	
Interest paid	(58,772)		(45)	(58,817)	
Addition to capital assets	(111,021)			(111,021)	
Net cash flows from capital and related financing activities	(271,104)		(45)	(271,149)	
CASH FLOWS FROM INVESTING AND RELATED FINANCING ACTIVITIES					
Interest received	5,520	52	1,899	7,471	
Net cash flows	959,311	700	106,559	1,066,570	(125,000)
Cash and cash equivalents at beginning of year	965,000	30,602	395,084	1,390,686	125,000
Cash and cash equivalents at end of year	$1,924,311	$31,302	$501,643	$2,457,256	
Reconciliation of operating income to net cash provided by operating activities:					
Net Program Operating Income (Loss)	($1,712,953)	($7,520)	($121,111)	($1,841,584)	
Adjustments to reconcile operating income to cash flows from operating activities:					
Depreciation	181,666			181,666	
Membership Dues	1,676,290			1,676,290	
Donations - Unrestricted	139,660		92,240	231,900	
Interest	58,772		45	58,817	
Change in assets and liabilities:					
Receivables	(1,616,773)			(1,616,773)	
Prepaid expenses and other assets	126,674	8,168		134,842	
Accounts payable	1,679,761		(4,832)	1,674,929	
Compensated absences	13,119			13,119	
Other accrued liabilities	62,544			62,544	
Unearned revenue	616,135		138,363	754,498	(125,000)
Net cash flows from operating activities	$1,224,895	$648	$104,705	$1,330,248	($125,000)

See accompanying notes to basic financial statements

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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.

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 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 $2,191,615 for these services and $286,217 for contract services in the fiscal year ended June 30, 2011.

- 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 $952,721 for these services and $438,708 for contract services in the fiscal year ended June 30, 2011.

- 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 $65,747 for these services and $27,815 for contract services in the fiscal year ended June 30, 2011.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 $262,428 for these services and $10,566 for contract services in the fiscal year ended June 30, 2011.

Separate financial statements are available for each of these entities at the Association's offices at 101 Eighth Street, Oakland, CA 94607.

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 Assets 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.

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 8% 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 assets 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.

Applicable statements and interpretations of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 may apply unless they conflict with or contradict GASB pronouncements. The Association has elected not to apply FASB pronouncements issued after November 30, 1989.

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, 2010	$513,096
Additions	379,394
Payments	(366,275)
Balance June 30, 2011	$526,215
Due within one year	$354,524

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.

NOTE 2 - CASH AND INVESTMENTS

A. *Carrying Amount and Fair Value*

Cash and investments comprised the following at June 30, 2011:

	Association and other blended component units	Total
LAIF	$1,391,884	$1,391,884
Cash:		
Cash in banks	1,064,372	1,064,372
Cash on hand	1,000	1,000
Total Cash and Investments	$2,457,256	$2,457,256

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	None	None
Investment Trust of California (CalTRUST)	On Demand	N/A	None	None

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	$1,391,884
Cash in banks	1,064,372
Cash on hand	1,000
Total Cash and Investments	$2,457,256

As of year-end, the weighted average maturity of the investments in the LAIF investment pool is approximately 237 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.

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, 2010	Additions	Retirements	Transfers	June 30, 2011
Capital assets not being depreciated:					
Construction in progress	$672,812			($672,812)	
Capital assets being depreciated:					
Facilities and improvements	3,481,006	$24,333		98,808	$3,604,147
Furniture and equipment	543,219	36,347	($109,052)	574,004	1,044,518
Vehicles	76,116		(18,464)		57,652
Capitalized software	670,433	50,341	(15,202)		705,572
Total capital assets being depreciated	4,770,774	111,021	(142,718)	672,812	5,411,889
Accumulated depreciation	(4,365,899)	(181,666)	142,718		(4,404,847)
Total	$1,077,687	($70,645)			$1,007,042

NOTE 4 - LONG TERM OBLIGATION

A. Additions and Retirements

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

	Balance June 30, 2010	Retirements	Balance at June 30, 2011 Current Portion	Balance at June 30, 2011 Long-term Portion
BUSINESS-TYPE ACTIVITY				
Seismic Retrofit Project				
0% Interest rate, due 6/30/2014	$183,400	$47,020	$45,459	$90,921
Office Improvement Project				
Variable rate + 1%, due 1/1/2020	674,049	54,291	57,640	562,118
Total	$857,449	$101,311	$103,099	$653,039

B. Line of Credit

In July 2009, the Association signed a $2 million line of credit arrangement with a bank. Repayment of all outstanding principal is due on June 30, 2011. 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. In fiscal year 2011, the Association renewed the line of credit to mature on February 28, 2013. No borrowings were made on the line of credit during fiscal year 2011.

C. Seismic Retrofit Project

In fiscal year 2007, the Association entered into an agreement with the Regional Administrative Facility Corporation (RAFC) 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 outstanding balance is to be repaid as follows:

For the Year Ending June 30	Principal
2012	$45,459
2013	45,459
2014	45,462
Total	$136,380

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 (1.448% as of June 30, 2011). As of June 30, 2011, the installment agreement obligations, based on the June 30, 2011 interest rate, were as follows:

For the Year Ending June 30	Principal	Interest	Total
2012	$57,640	$8,974	$66,614
2013	61,195	8,139	69,334
2014	64,969	7,253	72,222
2015	68,976	6,313	75,289
2016	73,231	5,314	78,545
2017 - 2020	293,747	9,977	303,724
Total	$619,758	$45,970	$665,728

NOTE 5 - WINDEMERE RANCH ASSESSMENT DISTRICT SPECIAL ASSESSMENT DEBT

On behalf of Contra Costa County, the Association formed the Windemere Ranch Assessment 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.

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	
	2011	2010
Revenue Bonds	$242,665,000	$255,095,000
Certificates of Participation	32,355,000	35,260,000
Total	$275,020,000	$290,355,000

NOTE 7 – NET ASSETS

Net Assets is the excess of all the Association's assets over all its liabilities, regardless of fund. The Association's Net Assets are divided into the two captions described below:

Invested in Capital Assets, net of related debt 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 Assets which is restricted as to use by the terms and conditions of donations received by the Association. As of June 30, 2011, the entire amount in Restricted Net Assets is restricted for the support of the Tranter-Leong Internship Program.

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

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, 2011, are summarized as follows:

	Miscellaneous
Benefits vesting schedule	5 years service
Benefits payments	Monthly for life
Retirement age	50
Monthly benefits, as a % of annual salary	2 % - 2.5%
Required employee contribution rates	8.00%
Required employer contribution rates	18.686%

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 7.75% is assumed, including inflation at 3%. 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.

NOTE 8 - PENSION PLAN (Continued)

Actuarially required contributions for fiscal years 2011, 2010 and 2009, were $1,781,404, $1,773,179, and $1,734,077 respectively. The Association made these contributions as required, together with certain immaterial amounts required as the result of the payment of other additional employee compensation.

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 will fund the liability through increased future contribution rates.

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:

Miscellaneous Plan:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2007	$1,315,454,361	$1,149,247,298	$166,207,063	87.4%	$289,090,187	57.5%
2008	1,537,909,933	1,337,707,835	200,202,098	87.0%	333,307,600	60.1%
2009	1,834,424,640	1,493,430,831	340,993,809	81.4%	355,150,151	96.0%

The Association's Miscellaneous Plan represents approximately 2% of the State-wide pool based on covered payroll.

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

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).

NOTE 9 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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 Tier 2 Hired ≥ 7/1/2009	 100% of Kaiser 2-party basic premium[1] Same cap pre- & post - 65 PEMHCA minimum	
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 No current active hired < 7/1/2009 opted in MARA	Tier 2 Must enroll in MARA ABAG contributes 1.5% of base salary to an individual MARA account for each active employee MARA not included in the OPEB evaluation
Surviving Spouse of Retiree	Same benefit continues to surviving spouse if retiree elects CalPERS survivor annuity	

[1] Kaiser single basic premium for retired before 9/1/1994

As of June 30, 2011, approximately 53 participants were eligible to receive benefits.

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2009 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) 7.75% investment rate of return, (b) 3.25% projected annual salary increase, and (c) 3% 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 30 year closed amortization period.

NOTE 9 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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.

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, 2011, the Association contributed $717,820 which represented 10.40% of the $6.9 million 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, 2010	$564,835
Annual required contribution (ARC)	780,000
Interest on net OPEB obligation	43,775
Adjustment to annual required contribution	(50,945)
Annual OPEB cost	772,830
Contributions made:	
Contributions to CERBT	564,835
Association's portion of current year premiums paid	152,985
Total contributions	717,820
Change in net OPEB Liability	55,010
Net OPEB Obligation June 30, 2011	$619,845

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

The Plan's annual required contributions and actual contributions for the year ended June 30, 2011 are set forth below:

Fiscal Year	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of OPEB Contributed	Net OPEB Obligation/ (Asset)
6/30/2009	$686,000	$120,677	18%	$565,323
6/30/2010	712,835	713,323	100%	564,835
6/30/2011	772,830	717,820	93%	619,845

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 January 1, 2007 actuarial study is presented below:

	Actuarial			
Valuation Date	Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio
1/1/2007	$0	$4,128,000	($4,128,000)	0%
6/30/2009	0	4,346,000	(4,346,000)	0%

NOTE 10 - 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, 2011, 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.

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ASSOCIATION OF BAY AREA GOVERNMENTS

SINGLE AUDIT REPORT &
TRANSPORTATION DEVELOPMENT ACT
PROGRAM COMPLIANCE

FOR THE YEAR ENDED JUNE 30, 2011

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ASSOCIATION OF BAY AREA GOVERNMENTS

SINGLE AUDIT REPORT &
TRANSPORTATION DEVELOPMENT ACT
PROGRAM COMPLIANCE

For The Year Ended June 30, 2011

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ASSOCIATION OF BAY AREA GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2011

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

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

Any audit findings disclosed that are required to be reported in accordance with Public Utilities Code §99233.2? ____ Yes X No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unqualified

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? ____ Yes X No

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
20.515	Federal Transit Administration
66.456	National Estuary Program
66.458	ARRA – Capitalization Grants for Clean Water State Revolving Funds
81.128	ARRA – Energy Efficiency and Conservation Block Program (EECBG)
81.041	ARRA – State Energy Program
15.808	U.S. Geological Survey – Research and Data Collection

Dollar threshold used to distinguish between type A and type B programs: $340,614

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 October 7, 2011, 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 did not disclose any findings or questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

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.

SECTION V – TRANSPORTATION DEVELOPMENT ACT FINDINGS AND QUESTIONED COSTS

Our audit disclosed no findings or questioned costs required to be reported in accordance with Transportation Development Act.

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ASSOCIATION OF BAY AREA GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

Federal Grantor and Award Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Department of Transportation			
Pass-Through Metropolitan Transportation Commission			
Federal Highway Administration Program			
Highway Planning and Construction Programs:			
Information Analysis and Planning Services	20.205	Not available	$1,638,448
Focusing the Bay Area Vision	20.205	Not available	94,514
Station Area Planning	20.205	Not available	200,000
Pass-Through Subtotal			1,932,962
Pass-Through California Department of Transportation			
Federal Highway Administration Program			
Highway Planning and Construction Programs:			
Caltrans Permitting	20.205	04A3521	32,424
Program Subtotal			1,965,386
Pass-Through Metropolitan Transportation Commission			
Federal Transit Administration Program			
State Planning and Research:			
Transportation Model Upgrade Phase I	20.515	Not available	230,534
Pass-Through Metropolitan Transportation Commission			
Metropolitan Transportation Planning:			
Information Analysis & Planning Services	20.505	Not available	242,555
Department & Pass-Through Programs Subtotal			2,438,475
Environmental Protection Agency			
Direct Programs			
Congressionally Mandated Projects			
Wetlands Protection Development:			
EPA Estuary 2100 Phase II	66.202	EM-00T34101-0	269,375
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act			
Wetlands Protection Development:			
EPA Estuary 2100	66.436	X7-00T04701-0	1,199,786
Targeted Watersheds Grant			
EPA Green Infill/Clean SW	66.439	WS-96932601-0	344,121
National Estuary Program:			
EPA--FY 09-10 Estuary	66.456	CE-96949401-5	217,298
EPA--FY 10-11 Estuary	66.456	CE-00T47801-0	462,178
Program Subtotal			679,476
Regional Wetland Program Development Grants:			
EPA Stream III	66.461	CD-96925701-0	85,358
Direct Programs Subtotal			2,578,116
Pass-Through Aquatic Science Center			
Water Pollution Control State, Interstate, and Tribal Program Support			
Aquatic Science Center Contract	66.419	886	63,851

ASSOCIATION OF BAY AREA GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

Federal Grantor and Award Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Pass-Through State Water Resources Board			
Capitalization Grants for Clean Water State Revolving Funds:			
ARRA - Taking Action Sediment	66.458	09-305-550	448,680
ARRA - Taking Action - PCBS	66.458	09-305-550	156,952
ARRA - Taking Action - UP3	66.458	09-305-550	103,826
ARRA - Taking Action - Ecowise	66.458	09-305-550	89,541
ARRA - El Cerrito Green Streets	66.458	09-819-550	31,434
ARRA - Trash Capture	66.458	09-823-550	227,424
Program Subtotal			1,057,857
Pass-Through State Water Resources Board			
Nonpoint Source Implementation Grants:			
Hicks Flat Mercury Remediation	66.460	09-670-552	29,905
Pass-Through California Department of Transportation			
Survey, Studies, Investigations, Demonstrations, and Training Grants - Section 104(b)(3) of the Clean Water Act:			
Caltrans Permitting II	66.436	01A1109	41,631
Pass-Through Programs Subtotal			1,193,244
Department Subtotal			3,771,360
Department of Energy			
Pass-Through Los Angeles County			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)			
Building Better Communities	81.128	Not available	2,286,678
Pass-Through California Energy Commission			
ARRA - State Energy Programs			
Retrofit Bay Area	81.041	400-09-021	2,266,192
Department Subtotal			4,552,870
Department of Commerce			
Direct Program			
Coastal Zone Management Administration Awards			
SFEP SubTidal Goals	11.419	AB133F-07-SE-3935	28,674
Department Subtotal			28,674
Department of Interior			
Pass-Through California Department of Boating and Waterways			
Clean Vessel Act	15.616	00-107-744	374,616
Pass-Through Programs Subtotal			374,616
Direct Programs			
Fish and Wildlife Management Assistance			
WRP Annual Meeting Assistance	15.608	60181AG409	19,007
Earthquake Hazards Reduction Program			
USGS Quake Web Project	15.807	G10AP00005	49,264
U.S. Geological Survey - Research and Data Collection			
2010 Bay-Delta Conference	15.808	G10AP00078	119,539
Direct Programs Subtotal			187,810
Department Subtotal			562,426
Total Expenditures of Federal Awards			$11,353,805

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 AND THE SCHEDULE OF EXPENDITURES OF TRANSPORTATION DEVELOPMENT ACT PROGRAMS
For The Year Ended June 30, 2011

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.

The Schedule of Expenditures of Transportation Development Act Programs (the TDA Schedule) includes expenditures of the Transportation Development Act Programs 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 governmental funds and agency funds are accounted for using the modified accrual basis of accounting. 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:

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:

CFDA Number	Program Name	Amount Provided to Subrecipients
15.616	Clean Vessel Act	$228,771
66.202	Estuary 2100 Phase II	230,762
66.436	EPA Estuary 2100	1,071,366
66.439	EPA Green Infill/Clean SW	260,332
66.456	EPA FY 09-10 Estuary	27,958
66.456	EPA FY 10-11 Estuary	227,863
66.458	ARRA - Taking Action Sediment	433,465
66.458	ARRA - Taking Actions - PCBS	109,659
66.458	ARRA - Taking Action - UP3	37,950
66.458	ARRA - Taking Action - Ecowise	56,972
66.458	ARRA - El Cerrito Green Streets	12,705
66.458	ARRA - Trash Capture	60,050
66.460	Hicks Flat Mercury Remediation	23,314
81.041	ARRA - Retrofit Bay Area	1,951,872
88.128	ARRA - Building Better Communities	2,177,319

MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

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

We have audited the financial statements of the Association of Bay Area Governments as of and for the year ended June 30, 2011, and have issued our report thereon dated October 7, 2011. We conducted our audit in accordance with generally accepted auditing standards 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.

Internal Control over Financial Reporting

The Association is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of 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 and other matters that are required to be reported under *Government Auditing Standards.*

We have also issued a separate Memorandum on Internal Control dated October 7, 2011, which is an integral part of our audits and should be read in conjunction with this report.

This report is intended solely for the information and use of Association Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moze + Associates

October 7, 2011

MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited 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, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

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. 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. Our audit does not provide a legal determination of the Government's compliance with those requirements.

In our opinion, the Association of Bay Area Governments complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Association as of and for the year ended June 30, 2011, and have issued our report thereon dated October 7, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Association's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of Association Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

October 7, 2011

MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE WITH PUBLIC UTILITIES CODE §99233.2 AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Association of Bay Area Governments (Association) of and for the year ended June 30, 2011, and have issued our report thereon dated October 7, 2011. 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.

Internal Control over Financial Reporting

Management of the Association of Bay Area Governments is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of 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. Our procedures included tests of compliance with Public Utilities Code §99233.2 and applicable provisions of the Transportation Development Act and the allocation instructions and resolutions of the Metropolitan Transportation Commission. 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*.

Report on Schedule of Expenditures of Transportation Development Act Programs

We have audited the financial statements of the Association as of and for the year ended June 30, 2011, and have issued our report thereon dated October 7, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Association's basic financial statements. The accompanying Schedule of Expenditures of Transportation Development Act Programs is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Executive Board, management, Metropolitan Transportation Commission, and others within the Association, and officials of applicable state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Maze & Associates

October 7, 2011

ASSOCIATION OF BAY AREA GOVERNMENTS
SCHEDULE OF EXPENDITURES OF
TRANSPORTATION DEVELOPMENT ACT PROGRAMS
For the Fiscal Year Ended June 30, 2011

Program	Expenditures
Information Analysis	$280,312
Planning Services	490,345
Public Information/Regional Liaison	110,000
Intergovernmental Coordination	131,197
Caltrans/MTC Modeling Pro-Cal	127,736
	$1,139,590

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

FOR THE YEAR ENDED
JUNE 30, 2011

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

For the Year Ended June 30, 2011

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3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
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maze@mazeassociates.com
www.mazeassociates.com

MEMORANDUM ON INTERNAL CONTROL

October 7, 2011

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

In planning and performing our audit of the financial statements of the Association of Bay Area Governments as of and for the year ended June 30, 2011, 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 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 and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, Association Board, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

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ASSOCIATION OF BAY AREA GOVERNMENTS
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2011 - 1: IT Best Practices Follow up

Since 2008, we have conducted an Information Systems Review with our audit which encompassed the financial information system and the network environment that houses it. We expand our work beyond simply looking at financial information systems as a result of greater risks of unauthorized access caused by overall industry growth of web-based commerce and internet based financial systems. Internal controls that are present in the overall network environment have become more important and relevant to understanding the internal controls over the financial system. We believe Information System controls must be continuously improved and enhanced to stay ahead of the ever increasing sophistication of hackers and criminals.

Currently, there are no Information Technology standards which local governments are required to conform to. Indeed there are a wide variety of informal guidelines and suggested controls from many different organizations which local governments can use to implement appropriate controls to ensure adequate security over information technology. Our Information Technology staff have reviewed these informal guidelines and concluded that the certification and accreditation framework developed by the National Institute of Standards and Technology (NIST) for the Federal Information Security Management Act (FISMA) are the most appropriate for local government. NIST and FISMA represent the minimum security requirements for federal government agencies information systems. We understand the U.S. Department of Justice recommends these for local governments. Our procedures included performing an external network scan based on NIST criteria and in determining that internal control provides for:

- ✓ Internet access defenses including hacker prevention, detection and deterrent systems
- ✓ Security of data from physical or network access
- ✓ Adequately protecting data from unauthorized internal access
- ✓ Reasonable measures to ensure continuation of service
- ✓ Information systems risk management

While the results of our work did not indicate material weaknesses or significant deficiencies as they relate to financial reporting and the financial system, we did note overall information technology areas which could be improved to conform to NIST guidelines.

Patch and Vulnerability Management - Computer or information systems are dynamic, that is, they are in a state of continuous change. This state of change leads to change in risk to the information contained on those systems. Some changes to systems lead to vulnerabilities or weaknesses that potentially could be exploited by malicious attackers such as hackers. Our scans indicate the Association's information systems have numerous vulnerabilities. While these vulnerabilities do not directly affect the financial reporting of the Association, they do present an unnecessary risk to the Association's information systems. The Association should develop a method for finding and remediate such vulnerabilities before they can be exploited. "Patch and vulnerability management is a security practice designed to proactively prevent the exploitation of IT vulnerabilities that exist within an organization. The expected result is to reduce the time and money spent dealing with vulnerabilities and exploitation of those vulnerabilities. Proactively managing vulnerabilities of systems will reduce or eliminate the potential for exploitation and involve considerably less time and effort than responding after exploitation has occurred.

ASSOCIATION OF BAY AREA GOVERNMENTS
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

Payment Card Industry Compliance - The Association is not in compliance with the Payment Card Industry Data Security Standard (PCI-DSS). Any organization that processes credit cards is required to comply with PCI-DSS, even if the processing is outsourced. Failure to meet compliance requirements results in higher transaction fees and liability if a security breach is found. Because the Association accepts credit cards as a form of payment, the Association must be compliant with the applicable controls.

Management Response:

Patch and Vulnerability Management - Although a small agency, ABAG hosts a huge array of IT applications: Web sites for ABAG projects, collaborative regional projects, member cities and towns, and special districts; an extensive Geographic Information Systems (GIS); event registration and management; online training courses (www.hazmatschool.com); liability claims processing and risk management for PLAN Corporation; an online store for purchasing publications and souvenirs; collaborative planning software; multiple databases; and financial accounting applications. This array of applications makes patch and vulnerability management a particular challenge because the applications utilize a variety of operating systems (OS) and software technologies. Each OS and technology has its own set of vulnerabilities. There are cases where the developer of an application does not support the latest OS or technology version. Patch and vulnerability management, therefore, has to be done somewhat differently for each application.

ABAG agrees that patch and vulnerability management is important, and the Association is committed to continuous improvement in this area. The scans performed by the auditors have been useful in identifying areas of particular vulnerability. ABAG staff have studied the results of the scans and have addressed areas of highest priority. Staff understands this is an ongoing process. ABAG has taken a significant action to harden web applications, which are particularly susceptible to attack by initiating a web application firewall to filter all web requests. The web application firewall has been ordered and is expected to be operational before the end of November, 2011. This firewall will operate in concert with the existing network firewall to provide an additional layer of screening.

Payment Card Industry Compliance - The Agency does accept credit cards payments for conference registrations, publications, and online training. As the credit card numbers are entered, they are electronically transmitted to a third party for processing. The numbers are not stored within ABAG's system. As the auditors point out, however, this does not remove the requirement for being PCI compliant. During the past year ABAG has taken significant steps towards achieving compliance. A sub-network that contains only the computers that transmit credit card information has been established; a common OS has been implemented among these machines. This allows targeted vulnerability scanning of these machines and improves monitoring. The Agency expects to achieve full PCI compliance by June 2012.

SCHEDULE OF OTHER MATTERS

2011 - 2: GASB 57 - OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans (Effective fiscal 2011-12)

The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

This Statement amends Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible.

In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

Management Response:

The statement has no direct material effect on the financial statements in the near term, but instead affects actuarial study timing and methodology. We have had conversations with our actuary and auditors and are on track to address the effects of this pronouncement.

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MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

REQUIRED COMMUNICATIONS

October 7, 2011

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

We have audited the financial statements of the Association of Bay Area Governments as of and for the year ended June 30, 2011 and have issued our report thereon dated October 7, 2011. Professional standards require that we advise you of the following matters relating to our audit.

Financial Statement Audit Assurance: Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

Other Information Included with the Audited Financial Statements: Pursuant to professional standards, our responsibility as auditors for other information in documents containing the Association's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures is explained in our audit report.

Accounting Policies: Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Association is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2011. During the year, the following pronouncements became effective without materially impacting the Association's financial statements:

- **Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions**

  This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

  Disclosure of the policies in the notes to the financial statements is required.

  The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

- **Statement No. 59 - Financial Instruments Omnibus**

  The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This is a technical clean up pronouncement that had no material impact to the financial statements.

Unusual Transactions, Controversial or Emerging Areas: No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2011.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are unbilled receivables. The Association has recorded unbilled receivables approximating $2.9 million. Actual billings and the ultimate collections may vary from this estimate.

Disagreements with Management: For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the Association's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Retention Issues: We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as the Association's auditors.

Difficulties: We encountered no serious difficulties in dealing with management relating to the performance of the audit.

Audit Adjustments: For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the Association, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by the Association that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the Association's financial reporting process.

Uncorrected Misstatements: Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Association Board.

******

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

Moze & Associates

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DATE: November 17, 2011

TO: Chair and Members of the Finance and Personnel Committee

FROM: Herbert L. Pike, Finance Director

SUBJECT: Resolution to Clarify Intent of 1994 ABAG Resolution and to Conform to Updated CalPERS and IRS Regulations

STAFF RECOMMENDATION

Staff recommends the Committee forward the attached Resolution to the Executive Board with a recommendation to pass.

BACKGROUND AND PURPOSE

Internal Revenue Code (IRC) Section 414(h)(2) allows public agencies to designate required employee contributions as being "picked-up" by the employer and treated as employer contributions for tax purposes. The effect of a pick-up is to defer tax on employee contribution amounts until the member retires and receives retirement benefits, or separates from employment and takes a refund of contributions. Absent the 414(h)(2) provision applicable to governmental plans, employee contributions to a defined benefit pension plan qualified under Section 401(a) would automatically be after-tax contributions (e.g. taxable income to the employee at the time the contribution was made).

Revenue Ruling 2006-43 provides, in general, that an employee contribution will not be treated as "picked-up" under IRC 414(h)(2) unless:

(1) The employer specifies that the contributions, although designated as employee contributions, are being paid by the employer (this action must be memorialized in writing), and
(2) The employer does not permit participating employees to opt out of the pick-up or to receive the contributed amounts directly instead of having them paid by the employer to the plan.

Revenue Ruling 2006-43 allows employers who do not have written evidence of a pick-up, but their actions show that they intended to establish and carry out a pick-up, to be treated as meeting the requirements of 414(h)(2) for past pre-tax contributions if the employer takes formal action in writing with respect to future picked-up contributions. If formal action is not taken by November 30, 2011, only contributions taken after the written documentation is in place may be treated as picked-up.

Since the early 1980's, CalPERS has taken steps to ensure that contracting agencies have adopted and submitted to CalPERS appropriate written evidence of pick-ups prior to

reporting tax-deferred member contributions to CalPERS. It had been assumed that this written documentation was submitted when ABAG contracted with CalPERS back in 1994.

When the issue was first renewed in 2008, CalPERS stated that if the benefit was offered under a resolution approved by the IRS in a private letter ruling issued to CalPERS on December 6, 1985, (PLR 8609084), and followed the subsequent CalPERS adoption policies, the Agency need not adopt a new resolution. Again, ABAG proceeded with the belief that said resolution was incorporated in the original contract with CalPERS in 1994.

CalPERS has been in the process of updating its authorizing paperwork regarding payroll and tax deferred CalPERS member contributions. CalPERS has a Service credit Purchase Pre-Tax Resolution on file from ABAG from 1994, but this resolution does not include the appropriate tax code citations to support a tax-deferred member contribution.

ABAG has been identified by CalPERS as one of many agencies that reports tax-deferred member contributions and which now need to provide proper documentation. CalPERS has informed ABAG that it must pass a new resolution and file it with CalPERS authorizing tax deferred reporting. Failure to do so will preclude the recording of any ABAG payroll history after November 30, 2011.

FISCAL IMPACT

Adoption of the attached resolution has no impact upon ABAG because it reflects current and past practice. The contribution has been treated as tax-deferred, so adoption would not change the prevailing practice over the last 17 years.

Failure to adopt the resolution would make the benefit taxable, increasing employee tax liability and potentially increasing the taxable income which CalPERS uses in its calculation of retirement benefits, social security, Medicare, life insurance and disability payments. This would reduce employee take-home pay and increase ABAG's benefit costs in accordance with its current labor agreement.

ASSOCIATION OF BAY AREA GOVERNMENTS
EXECUTIVE BOARD

RESOLUTION NO. 14-11

RESOLUTION TO TAX DEFER MEMBER PAID CONTRIBUTIONS
IRC SECTION 414(h)(2) EMPLOYER PICK-UP

WHEREAS, the Executive Board of the Association of Bay Area Governments (ABAG) has the authority to implement the provisions of section 414(h)(2) of the Internal Revenue Code (IRC); and

WHEREAS, ABAG has determined that even though the implementation of the provisions of section 414(h)(2) IRC is not required by law, the tax benefit offered by section 414(h)(2) IRC should be provided to all employees who are members of the California Public Employees' Retirement System:

NOW, THEREFORE, BE IT RESOLVED,

I. That ABAG will implement the provisions of section 414(h)(2) Internal Revenue Code by making employee contributions pursuant to California Government Code Section 20691 to the California Public Employees' Retirement System on behalf of all its employees who are members of the California Public Employees Retirement System. "Employee contributions" shall mean those contributions to the Public Employees' Retirement System which are deducted from the salary of employees and are credited to individual employee's accounts pursuant to California Government Code section 20691.

II. That the contributions made by ABAG to the California Public Employees' Retirement System, although designated as employee contributions, are being paid by ABAG in lieu of contributions by the employees who are members of the California Public Employees' Retirement System.

III. That employees shall not have the option of choosing to receive the contributed amounts directly instead of having them paid by ABAG to the California Public Employees' Retirement System.

IV. That ABAG shall pay to the California Public Employees' Retirement System the contributions designated as employee contributions from the same source of funds as used in paying salary.

V. That the amount of the contributions designated as employee contributions and paid by ABAG to the California Public Employees' Retirement System on behalf of an employee shall be the entire contribution required of the employee by the California Public Employees' Retirement Law (California Government Code Sections 20000, et seq.).

ASSOCIATION OF BAY AREA GOVERNMENTS
RESOLUTION NO. 14-11

VI. That the contributions designated as employee contributions made by ABAG to the California Public Employees' Retirement System shall be treated for all purposes, other than taxation, in the same way that member contributions are treated by the California Public Employees' Retirement System.

The foregoing adopted by the Executive Board this 17th day of November, 2011.

_____
Mark Green
President

Certification of Executive Board Approval

I, the undersigned, the appointed and qualified Secretary-Treasurer of the Association of Bay Area Governments (Association), do hereby certify that the foregoing resolution was adopted by the Executive Board of the Association at a duly called meeting held on the 17th day of November, 2011.

_____
Ezra Rapport
Secretary-Treasurer

Approved as To Legal Form

_____
Kenneth K. Moy
Legal Counsel

RETURN ADDRESS

_____
_____
_____

FOR CALPERS USE ONLY

RESOLUTION TO TAX DEFER MEMBER PAID CONTRIBUTIONS – IRC 414(h)(2)

Approved by: _____

Title: _____