ABAG FINANCE AND PERSONNEL COMMITTEE

Thursday, November 19, 2009, 5:00 p.m.
ABAG Conference Room B
MetroCenter—8th and Oak Streets
Oakland, CA

Est. Time in Minutes			Recommendation**
2	1.	**Public Comments**	**Information**
3	*2.	**Minutes of the September 17, 2009 Meeting**	**Action**
5	*3.	**Financial Reports – ABAG** *The August and September 2009 reports are enclosed with the agenda packet.*	**Action**
5	4.	**Membership Dues Not Yet Received** *The members and the FY 2009-10 dues amount not yet received by ABAG will be reported and discussed at the meeting.*	**Information**
15	*5.	**Audited Financial Reports for ABAG** *Auditors from Maze & Associates will present the June 30, 2009 audited financial reports for ABAG. Committee will consider recommending Executive Board approval of these reports.*	**Action**
10	***6	**Capital Improvements to ABAG Facilities** *Staff will present a request for Finance & Personnel Committee recommendation to the Executive Board for approval of Resolution No. 09-19 authorizing borrowing of up to $700,000 to fund various capital improvements to the ABAG Offices. Staff will also present recommendations to accept vendor proposals for certain larger components of the overall facilities improvement project and to authorize contracting for the same.*	**Action**
		THE FOLLOWING ITEMS WILL BE DISCUSSED IN CLOSED SESSION PURSUANT TO THE REQUIREMENTS OF THE RALPH M. BROWN ACT.	
15	7.	**Conference with Legal Counsel—Existing Litigation** *Home Builders Association of Northern California vs ABAG*	**Information**
	8.	**Adjournment**	**Action**

* Attachments enclosed with packet.
** The committee may take action on any item on the agenda, which action may be the recommended action, any other action or no action.
*** Will be sent separately.

UPDATED 16 NOV 2009

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*** Will be sent separately.

UPDATED 16 NOV 2009

ABAG FINANCE AND PERSONNEL COMMITTEE

Summary Minutes

September 17, 2009

Members Present	Jurisdiction
Supervisor Scott Haggerty, Chair	County of Alameda
Supervisor David Cortese	County of Santa Clara
Supervisor Rose Jacobs Gibson	County of San Mateo
Supervisor John Gioia	County of Contra Costa
Mayor Mark Green	City of Union City
Supervisor Mike Kerns	County of Sonoma
Supervisor Barbara Kondylis	County of Solano
Vice Mayor Peter McHugh	City of Milpitas
Mayor A. Sepi Richardson	City of Brisbane

Members Absent
None

Officers and Staff Present
Ezra Rapport, Deputy Executive Director
Patricia Jones, Assistant Executive Director
Kenneth Moy, Legal Counsel
Herbert Pike, Finance Director
Brian Kirking, Information Services Director
Susan Hsieh, Assistant Finance Director

The meeting was called to order at 5:00 p.m.

1) There were no public comments.

2) Minutes of the July 16, 2009 meeting were approved as presented. /M/McHugh/S/Gioia/C/approved.

3) Pike summarized the June and July 2009 financial report for ABAG. Emphasis was on the slow recovery from the State creating high receivables and low cash balance. Also discussed was the payment of the Annual Required Contribution (ARC) for FY 2008-09 by December 2009. /M/Cortese/S/Rose-Gibson/C/ to accept reports.

AGENDA ITEM 2

4) Pike reported to the Committee that all members' dues for FY 2009-10 had been received except for four municipalities. The dues remaining represent less than two percent of all dues and Mr. Gardner has been working with each of the four. Staff expects to be able to report at the November meeting that **all** members have been renewed.

5) Jones summarized the annual Report on Diversity and Business Opportunity—FY 2008-09. While progress continues to be made, challenges still remain. As in previous years, ABAG continues to seek Hispanic applicants to round out our diverse workforce. ABAG also continues to reach out and provide contracting opportunities to as many under-represented groups as possible, while maintaining its requirements of excellence. /M/Richardson /S/Kerns /C/ to recommend acceptance by Executive Board.

6) Rapport presented staff's request to authorize borrowing of up to $700,000 to fund renovation of ABAG's offices and work areas located at the MetroCenter. The annual amortization of the loan would amount to less than $100,000 per year over up to 10 years; funds for amortization would be available following the last payment in December, 2009, of the ABAG MetroCenter 25-year capital-lease. /M/ McHugh/S/Gioia/C/ to recommend approval by the Executive Board.

   To commence renovations in the latter half of November, the Committee seeks delegation of authority from the Executive Board to convene a special meeting to review and authorize any contracts of $20,000 or more. /M/Green/S/Kondylis/C/ to seek said authorization from the Executive Board.

7) At a special closed session, the Committee was briefed on new litigation brought against the ABAG regarding PROJECTIONS 2009. There is nothing to report out at this time.

8) Meeting was adjourned at 5:45 p.m.

AGENDA ITEM 2

TO: Finance and Personnel Committee

DT: September 30, 2009

FM: Herbert Pike, Finance Director

Re: Financial Reports
--August 2009

The following are highlights of the financial reports for August 2009.

Cash on Hand (Figure 1)
Cash on hand increased to $3.16 million on August 31 from $1.53 million on July 31. The August balance includes approximately $1.77 million invested in the Local Agency Investment Fund (LAIF). Currently, ABAG does not hold any other investments. The August 31 cash balance is approximately $555 thousand higher than the prior year, commensurate with the roughly $565 thousand owed to fund the prior year's required contribution for future retiree health insurance obligations. Much of the upturn is attributed to improved receivables noted below.

Receivables (Figure 2)
Receivables from grant and service programs amounted to about $2.65 million on August 31, a decrease of $809 thousand from the month prior. Compared to August 30 the year prior, the total reflects a decrease of approximately $399 thousand. While substantially improved from the prior month and the prior year, the total receivables are still over $850 thousand higher than two years prior, before the budget crises commenced. It is hoped this reflects a return to a more expeditious reimbursement pattern from the State experienced prior to the State budget crises of the last two years.

Actual vs. Budgeted Expenses (Figure 9)
Total expenses through August 31 amounted to about $2.50 million, or 11.2%, of projected annual expenses of $22.3 million for FY 09-10.

Actual vs. Budgeted Revenues (Figure 10)
At August 31, total revenues amounted to about $2.44 million, or 11.0%, of projected annual revenue of $22.3 million for FY 09-10.

As of August 31, both revenues and expenses are below "projected" annual totals. While revenues and expenditures might be expected to be 16.67% after the first two months of the new fiscal year, they are less than projections, largely due to the timing of consultant and sub-contractor expenses that lag in getting the billings in for the work performed and, consequently, getting reimbursed for completed work.

Fund Equity (Figure 5)
As of August 31, general fund equity was approximately $1.00 million, a decrease of $35 thousand from July 31. The agency's restricted fund equity, consisting of building bond interest, capital, self-insurance and building maintenance, remained unchanged at $510 thousand.

AGENDA ITEM 3

Indirect Cost (Figure 6)

The agency's actual indirect cost (overhead) rate was 50.43% of direct labor cost as of August 30, or about 7.48% above the budgeted rate of 42.95% for FY 09-10. Most of the excess charges are due to revised allocations of employees' time between Agency Administration/Communications and General Overhead. These issues have been identified and rates are slowly converging toward the expected rate over the next several months.

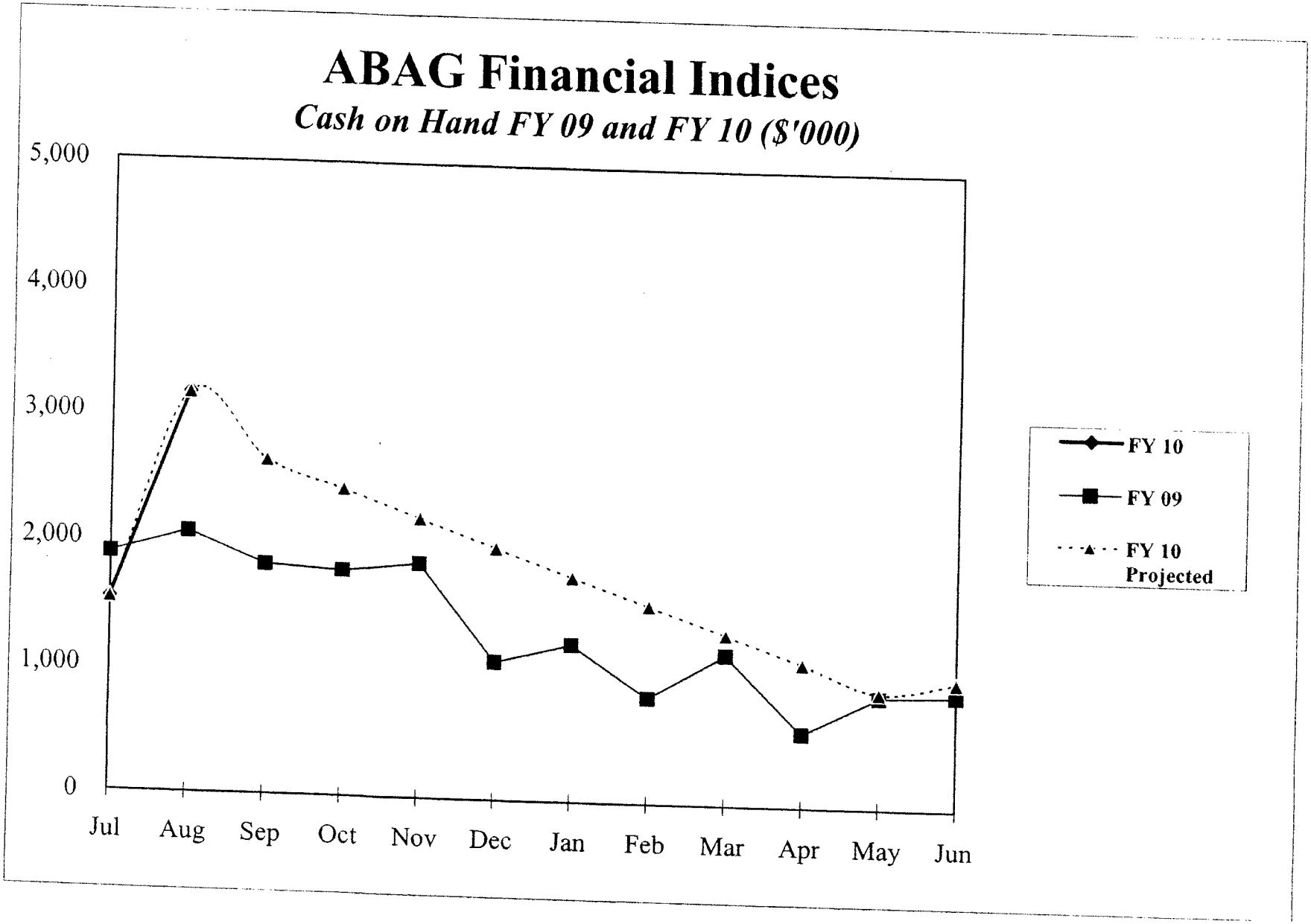
Overall (Figures 3, 4, 7 & 8)

At August 31, the Agency's net financial position is reasonably close to forecast with a modest deficit of roughly $55 thousand, or 2.25% of July-August revenues. Both "cash on hand" and "receivables" have improved over the prior month. Several projects formerly frozen are being restarted with the infusion of federal ARRA funding. The Agency looks forward to making its contributions for retiree medical benefits deferred from the prior fiscal year within the next couple of months.

ABAG FINANCIAL REPORTS

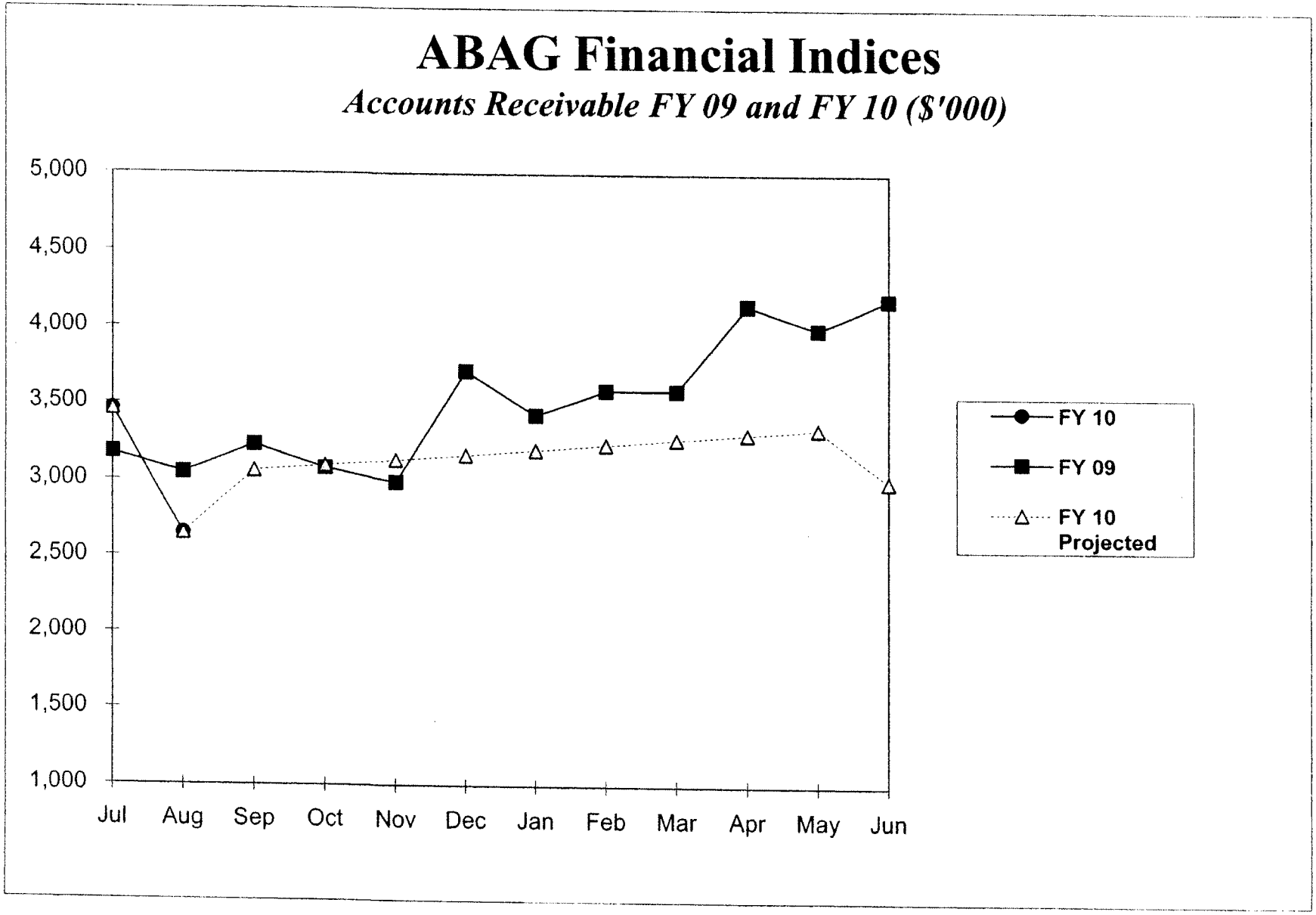
Table of Contents

* Cash on Hand ..... Figure 1
* Accounts Receivable ..... Figure 2
* Current Month Revenues and Expenses ..... Figure 3
* Year-to-date Revenues and Expenses ..... Figure 4
* Fund Equity ..... Figure 5
* Indirect Cost Rate (% of Direct Labor Cost) ..... Figure 6
* Composition of Expenses .....Figure 7
* Composition of Revenues ..... Figure 8
* Actual vs. Budgeted Expenses ..... Figure 9
* Actual vs. Budgeted Revenues ..... Figure 10
* Description of Charts



Source: ABAG -INDICES 2009-08.xls

FIGURE 1



Source: ABAG -INDICES 2009-08.xls

FIGURE 2

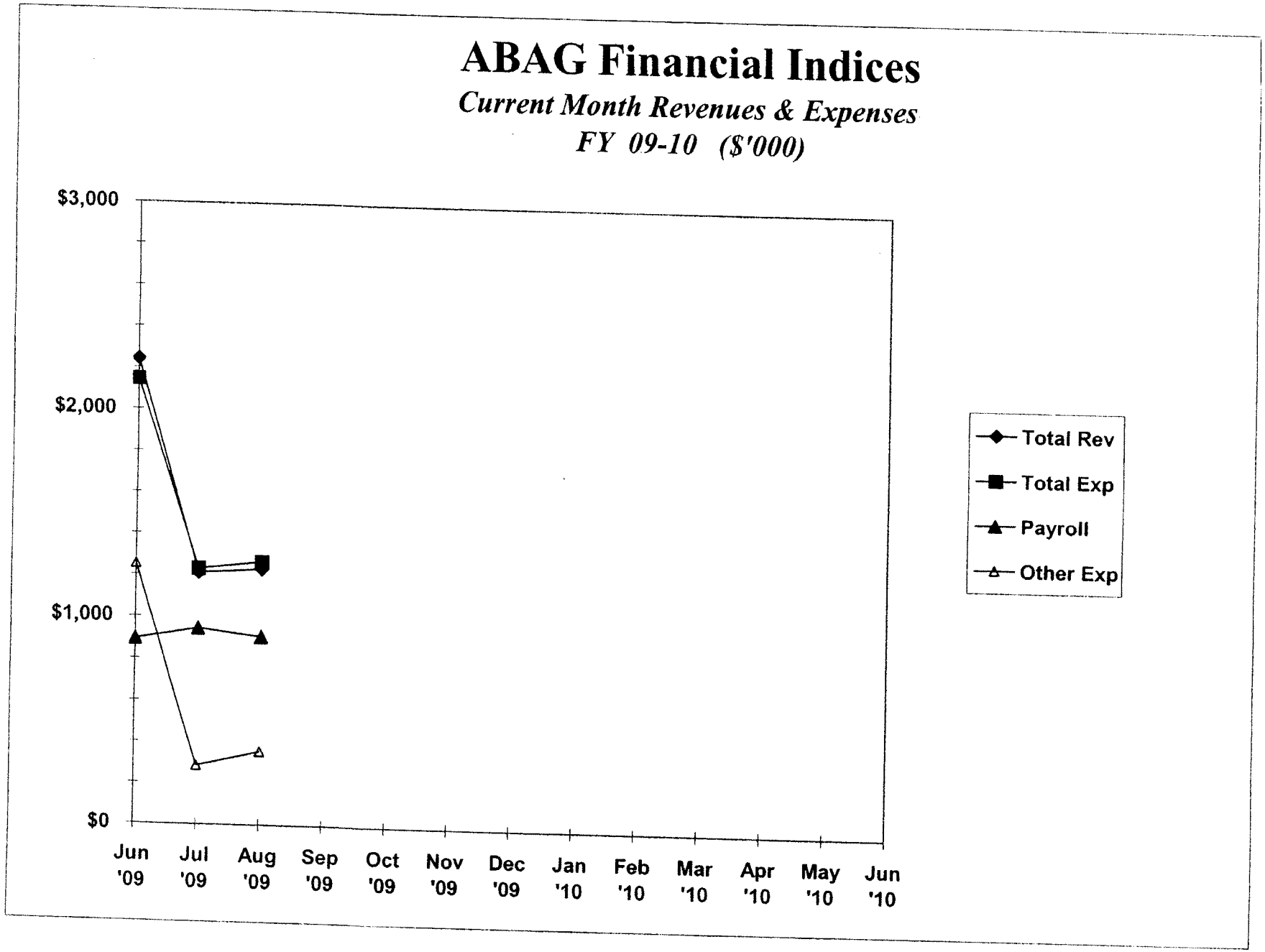


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FIGURE 3

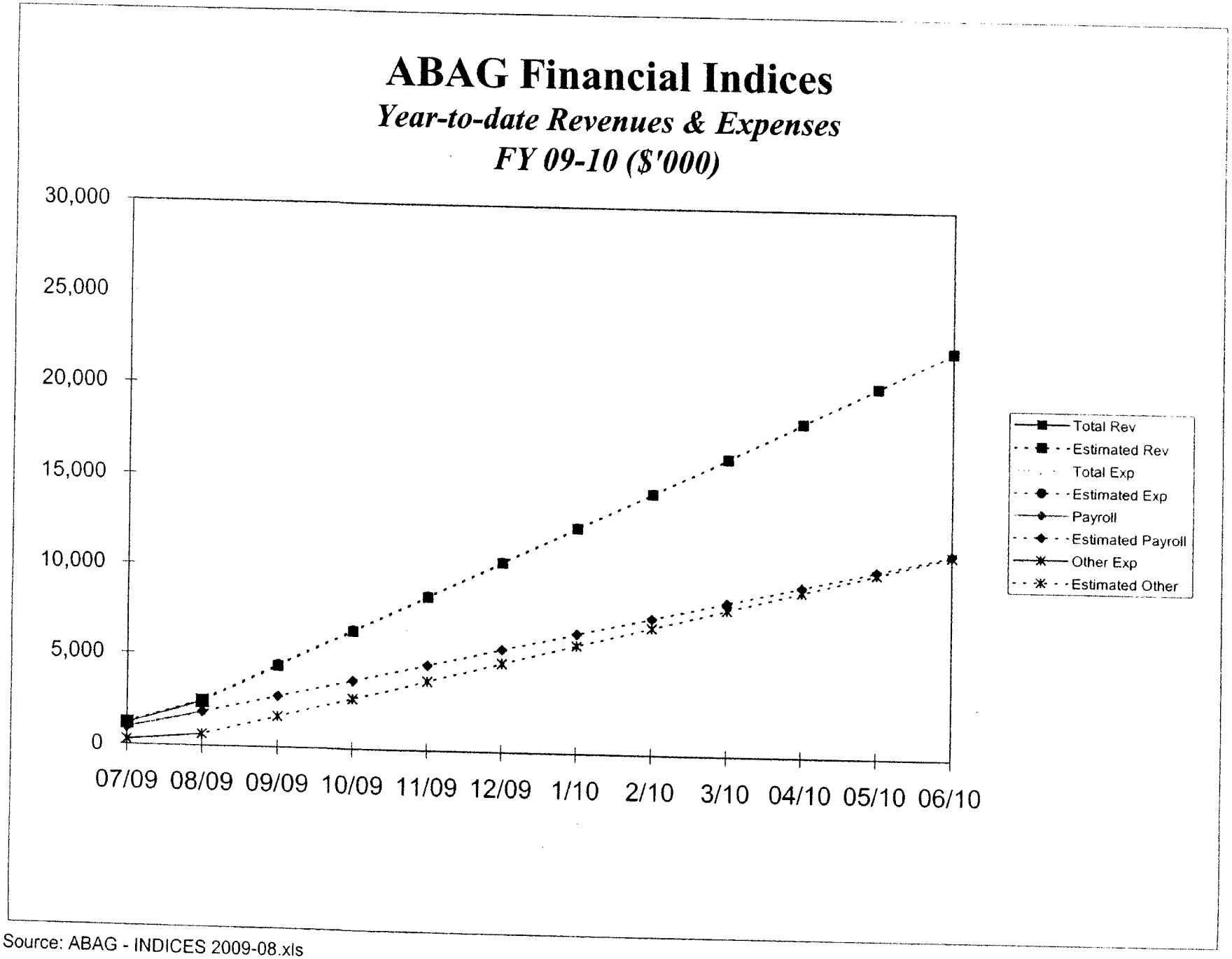

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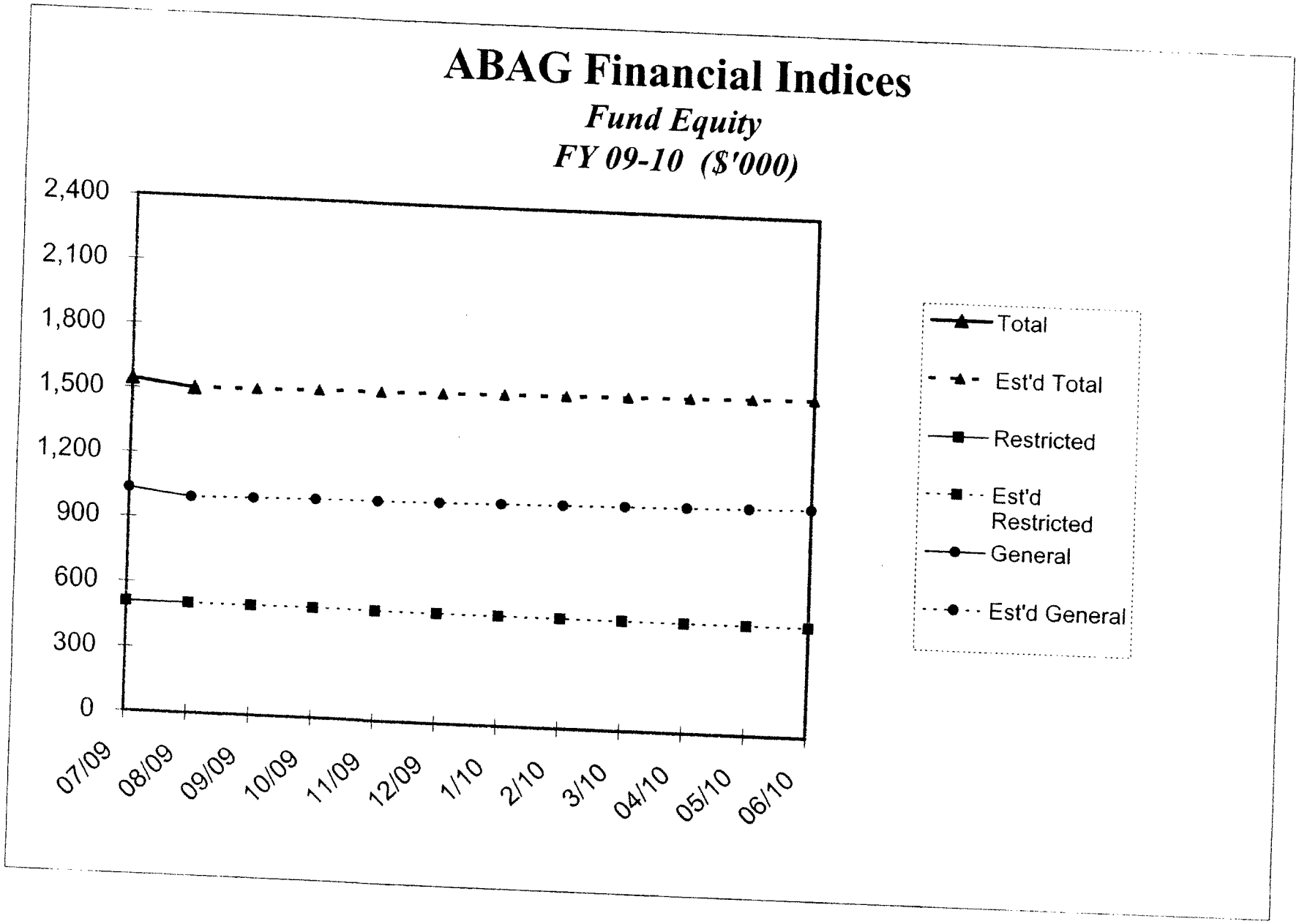
FIGURE 4



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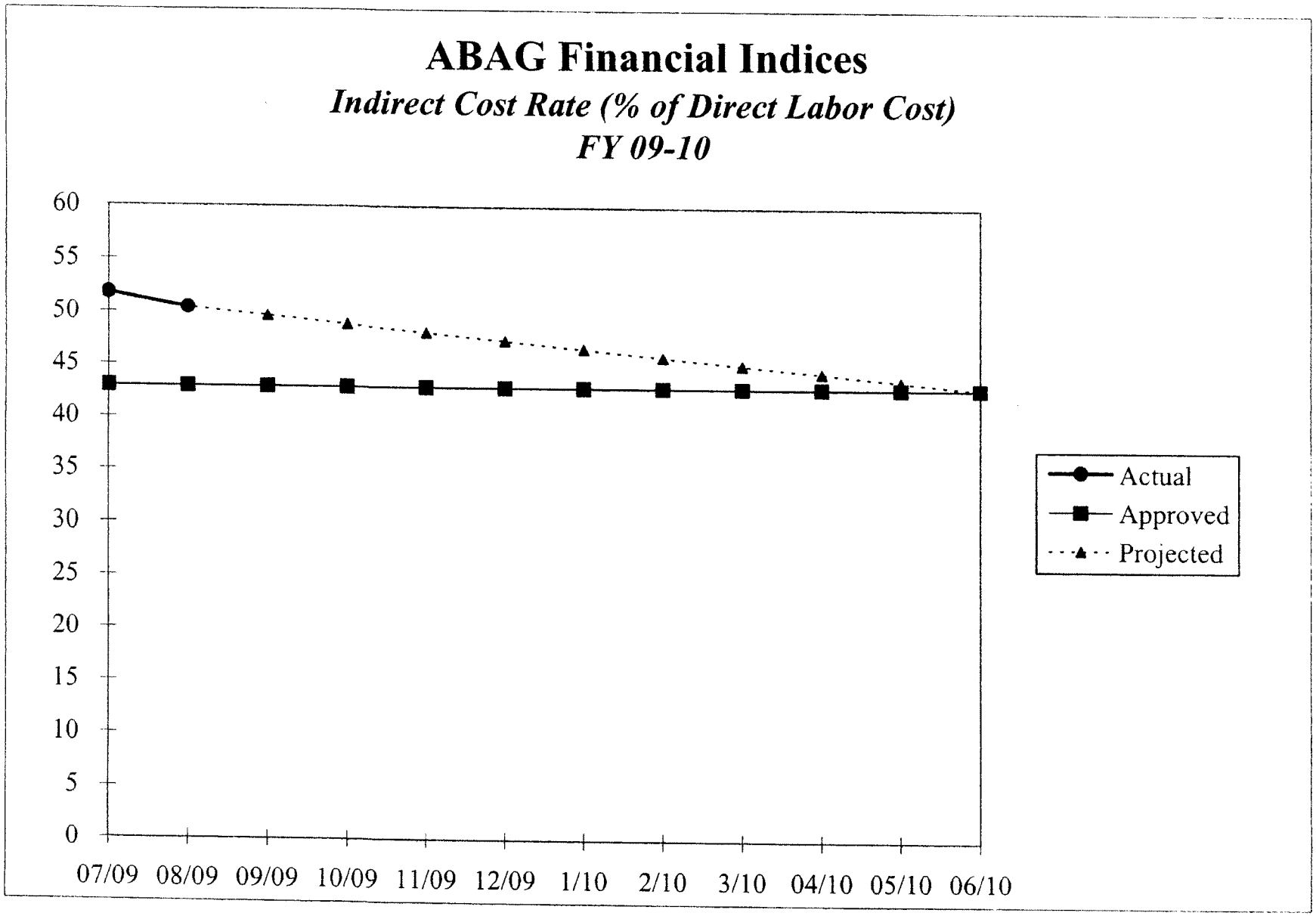


Source: ABAG- INDICES 2009-08.xls

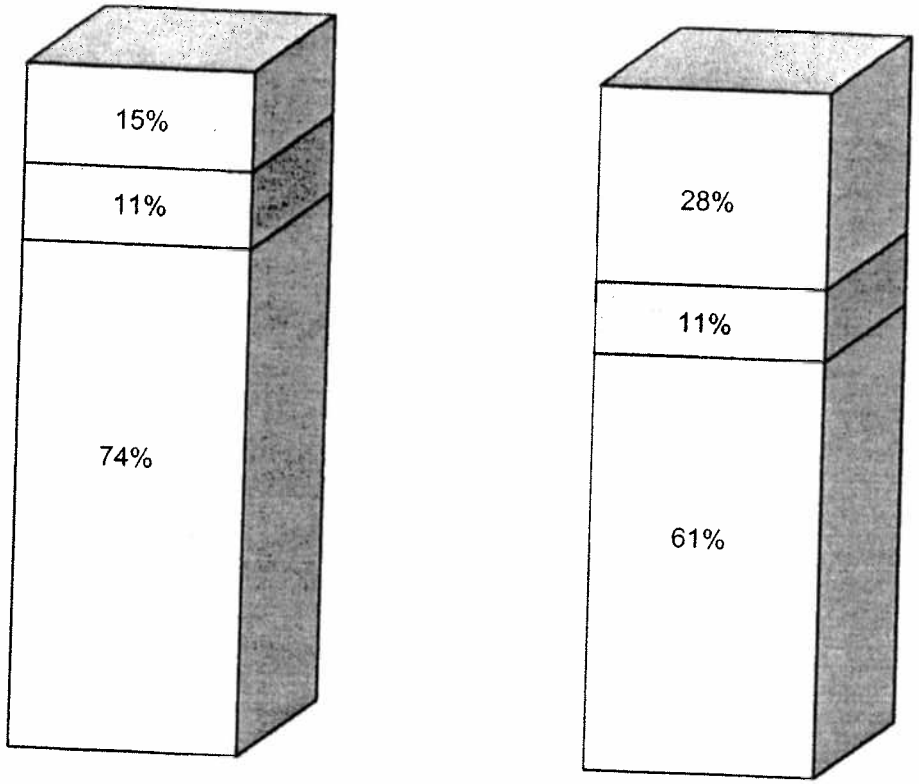
FIGURE 6

ABAG Financial Indices

Composition of Expenses FY 09--FY 10

Year to Date

($'000)



	FY09-10 Expenses (Total $2,498)	FY08-09 Expenses (Total $2,803)
☐ Consultants	$360	$794
☐ Others	$282	$295
☐ Payroll	$1,856	$1,714

Source: ABAG -INDICES 2009-08.xls

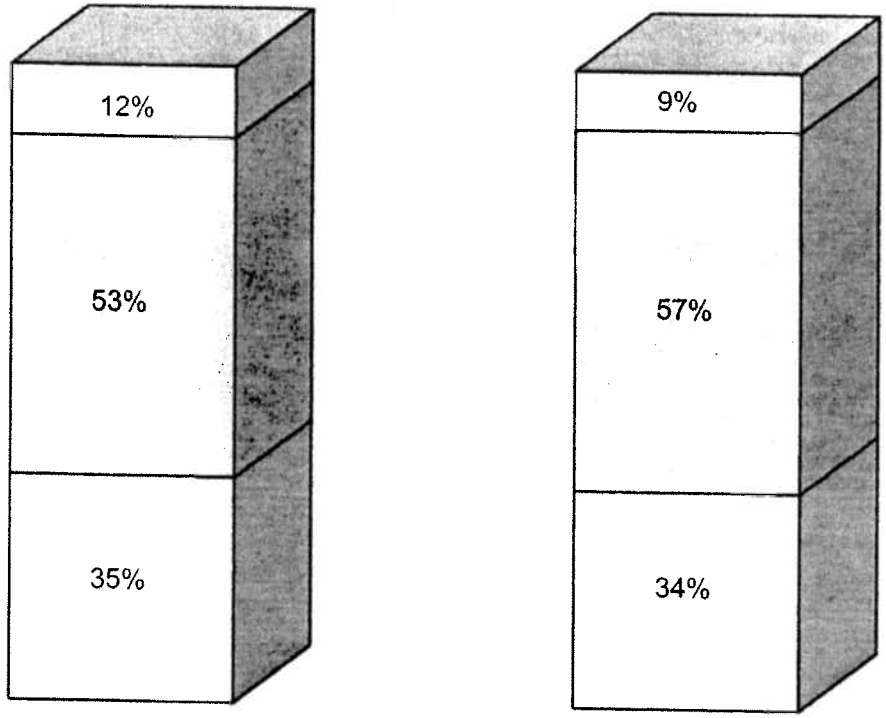
Figure 7

ABAG Financial Indices

Composition of Revenues FY 08--FY 09

Year to Date

($'000)



	FY 09-10 Revenue (Total $2,443)	FY 08-09 Revenue (Total $2,854)
☐ Membership	$278	$267
☐ Grants	$1,298	$1,615
☐ Services & Others	$867	$972

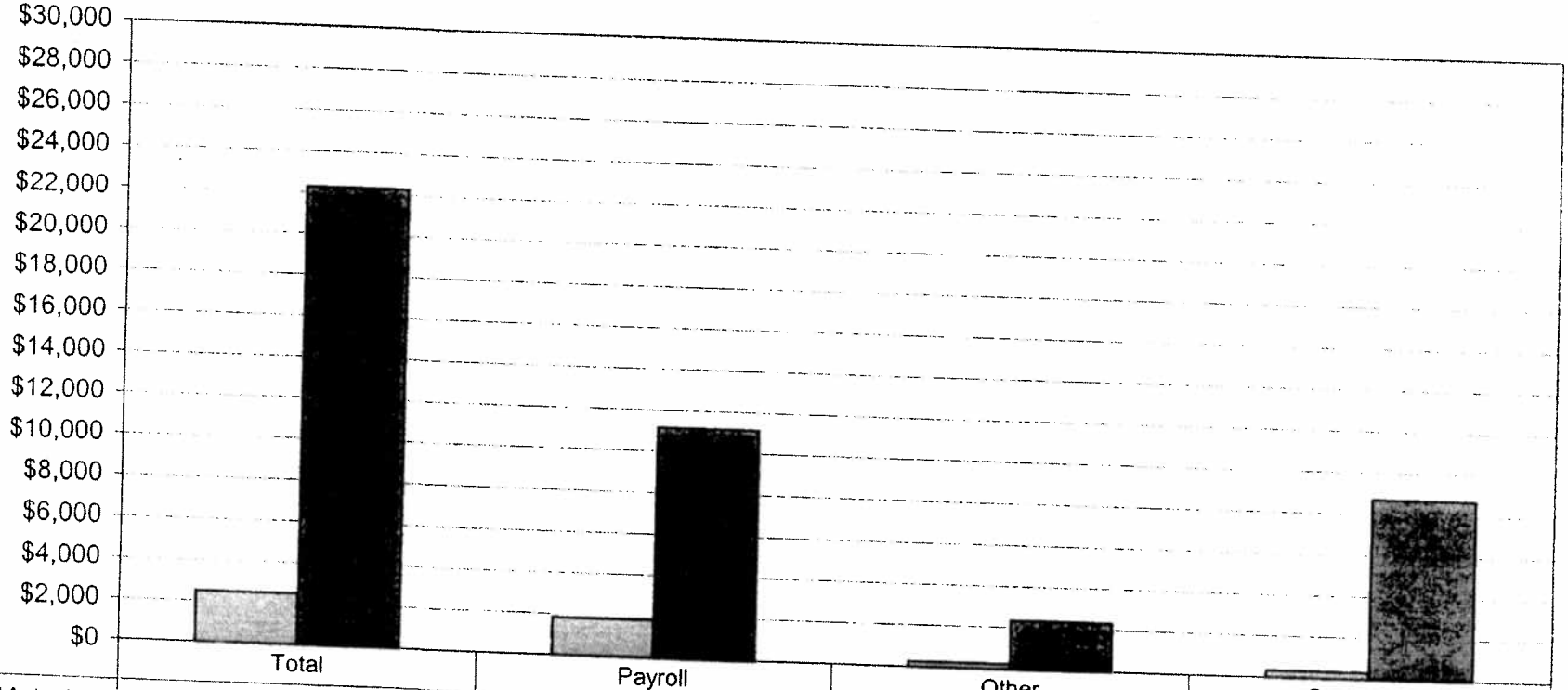
Source: ABAG --- INDICES 2009-08.xls

Figure 8

ABAG Financial Indices

Actual vs Projected Expenses--FY 09-10

Year to Date ($'000)



	Total	Payroll	Other	Consultants
Actual	$2,498	$1,856	$282	$360
Projected	$22,300	$11,178	$2,368	$8,754

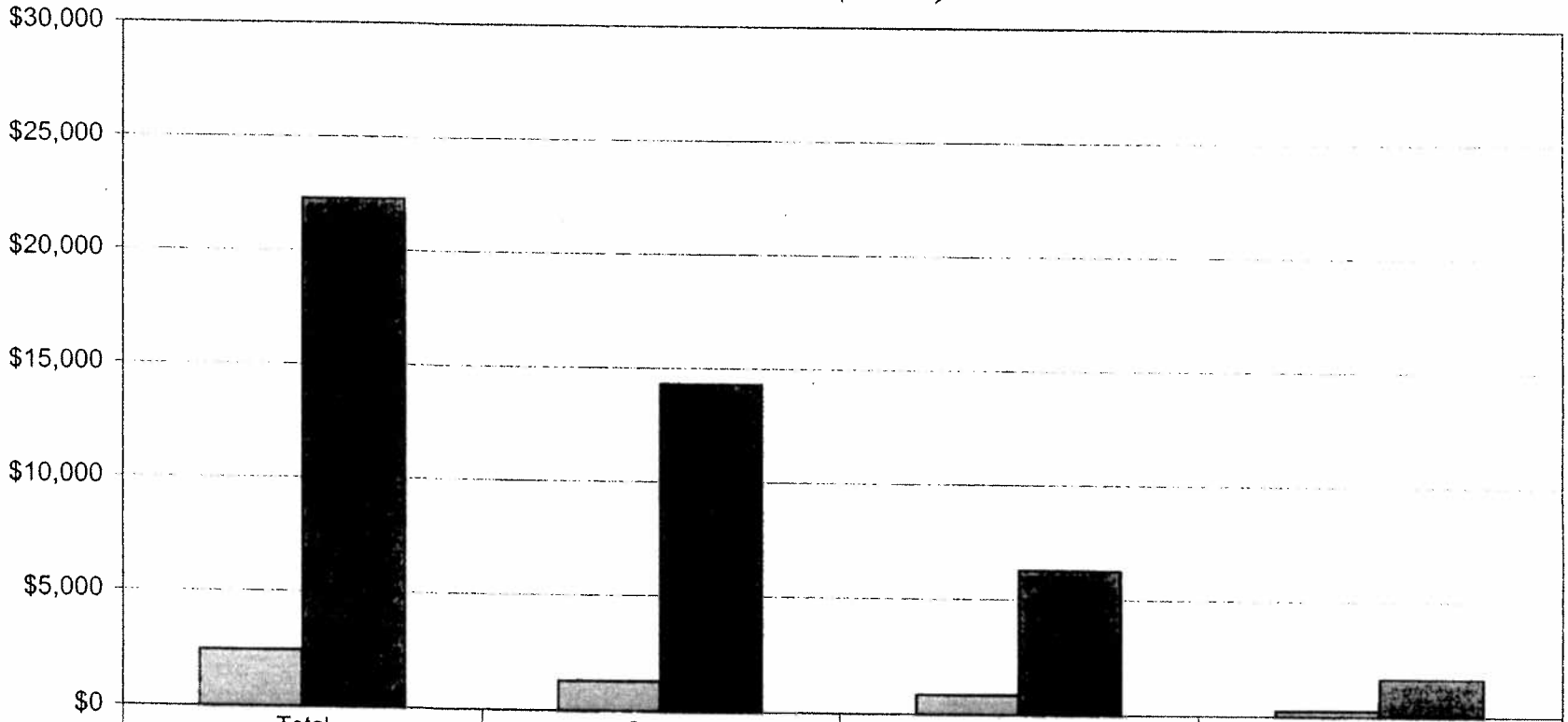
Source: ABAG -- INDICES 2009-08.xls

Figure 9

ABAG Financial Indices

Actual vs Projected Revenues--FY 09-10

Year to Date ($'000)



	Total	Grants	Services & Other	Membership
Actual	$2,443	$1,298	$867	$278
Projected	$22,300	$14,329	$6,300	$1,671

Source: ABAG --INDICES 2009-08.xls

Figure 10

Description of Charts

Figure 1 -- Cash on Hand

Cash on hand represents the sum total of cash deposited at our bank and the Local Agency Investment Fund (LAIF). This chart shows fluctuation patterns of cash on hand for the current and last fiscal years.

Figure 2 -- Accounts Receivable

Accounts receivable tracked by this chart include receivables generated by grants and service programs over two fiscal years. This chart reflects the reasonableness of our receivable levels. We usually have about six weeks' worth of our annual revenues in receivables.

Figure 3 -- Current Month Revenues and Expenses

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 agency.

Figure 4 -- Year-to-date Revenues and Expenses

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 agency.

Figure 5 --Fund Equity

Presents general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building bond interest, building maintenance, self-insurance and capital. These restricted equities represent the agency's equities set aside for specific purposes as approved by the Finance and Personnel Committee. Total equity is the sum total of general and restricted equities.

Figure 6 -- Indirect Cost Rate (% of Direct Labor Cost)

This chart 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 A-87.

Figure 7 – Composition of Expenses

This chart compares expenses for current and last fiscal years. It groups expenses into two broad categories -- payroll costs and other expenses.

Figure 8 -- Composition of Revenues

Presents a break down of total revenues into four main sources -- membership, grants, services and others. This chart compares revenue sources between current and last fiscal years.

Figure 9 -- Actual vs. Budgeted Expenses

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

Figure 10 -- Actual vs. Budgeted Revenues)

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

TO: Finance and Personnel Committee

DT: October 30, 2009

FM: Herbert Pike, Finance Director

Re: Financial Reports
--September 2009

The following are highlights of the financial reports for September 2009.

Cash on Hand (Figure 1)
Cash on hand decreased to $2.64 million on September 30 from $3.16 million on August 31. The September balance includes approximately $2.17 million invested in the Local Agency Investment Fund (LAIF). Currently, ABAG does not hold any other investments. The September 30 cash balance is approximately $820 thousand higher than the prior year, modestly greater than the roughly $565 thousand owed to fund the prior year's required contribution for future retiree health insurance obligations. Much of the upturn is attributed to improved receivables noted below.

Receivables (Figure 2)
Receivables from grant and service programs amounted to about $3.06 million on September 30, an increase of $412 thousand from the month prior. Compared to September 30 the year prior, the total reflects a decrease of approximately $170 thousand. While substantially improved from the prior month, the total receivables are still over $378 thousand higher than two years prior, before the budget crises commenced. It is hoped that more timely reimbursements from the State in recent months reflects a trend toward a more expeditious reimbursement pattern from the State experienced prior to the State budget crises of the last two years.

Actual vs. Budgeted Expenses (Figure 9)
Total expenses through September 30 amounted to about $3.85 million, or 17.26%, of projected annual expenses of $22.3 million for FY 09-10.

Actual vs. Budgeted Revenues (Figure 10)
At September 30, total revenues amounted to about $3.79 million, or 17.0%, of projected annual revenue of $22.3 million for FY 09-10.

As of September 30, both revenues and expenses are below "projected" annual totals. While revenues and expenditures might be expected to be 25% after the first three months of the new fiscal year, they are less than projections, largely due to the timing of consultant and sub-contractor expenses that lag in getting the billings in for the work performed and, consequently, getting billed and reimbursed for completed work.

Fund Equity (Figure 5)
As of September 30, general fund equity was approximately $1.00 million, a decrease of $3 thousand from August 31. The agency's restricted fund equity, consisting of building bond interest, capital, self-insurance and building maintenance, remained unchanged at $510 thousand.

AGENDA ITEM 3

Indirect Cost (Figure 6)

The agency's actual indirect cost (overhead) rate was 46.26% of direct labor cost as of September 30, or about 3.31% above the budgeted rate of 42.95% for FY 09-10. Most of the excess charges are due to revised allocations of employees' time between Agency Administration/Communications and General Overhead. These issues have been identified and rates are slowly converging toward the expected rate over the next several months.

Overall (Figures 3, 4, 7 & 8)

At September 30, the Agency's net financial position is reasonably close to forecast with a modest deficit of roughly $59 thousand, or 1.56% of first quarter revenues. Both "cash on hand" and "receivables" have improved over the prior year, and their downturn from the prior month reflects expected seasonal trends. Several projects formerly frozen are being restarted with the infusion of federal ARRA funding. This reflects part of a larger trend away from State funding towards Federal funding; grants received through the State are increasingly pass-through of Federal funding. The Agency looks forward to making its contributions ($565,000) for retiree medical benefits deferred from the prior fiscal year before the end of December.

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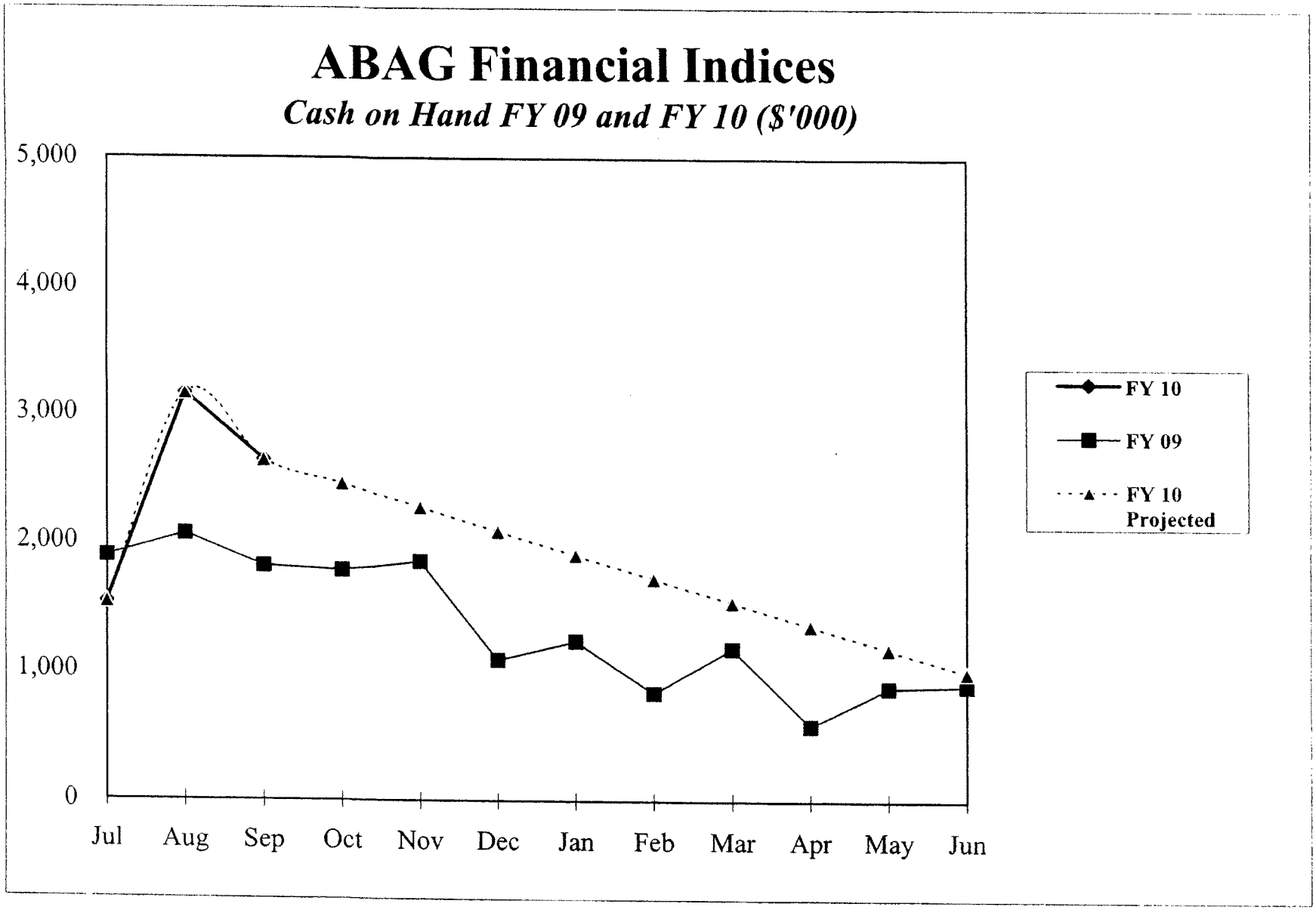

Source: ABAG -INDICES 2009-09.xls

FIGURE 1

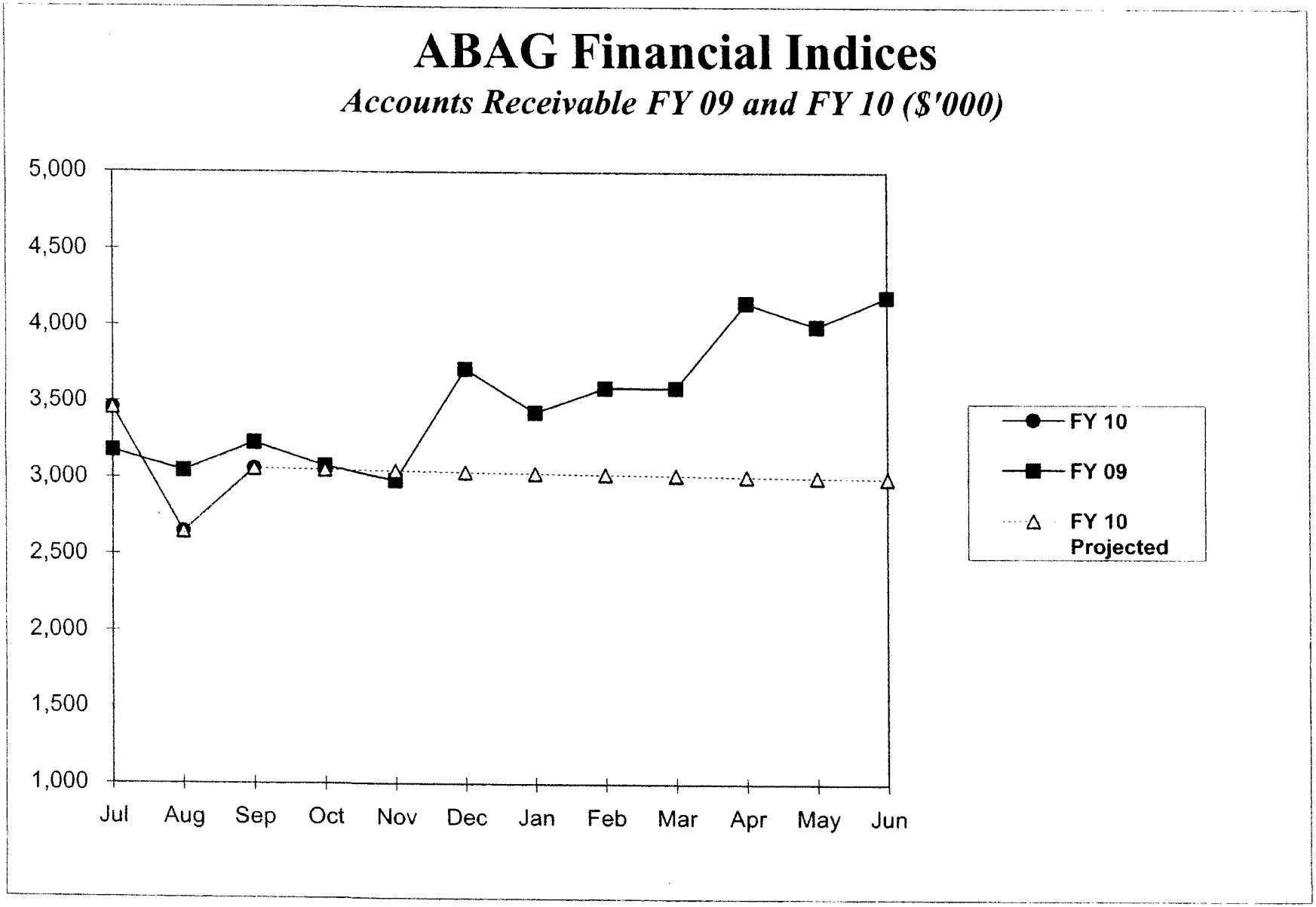

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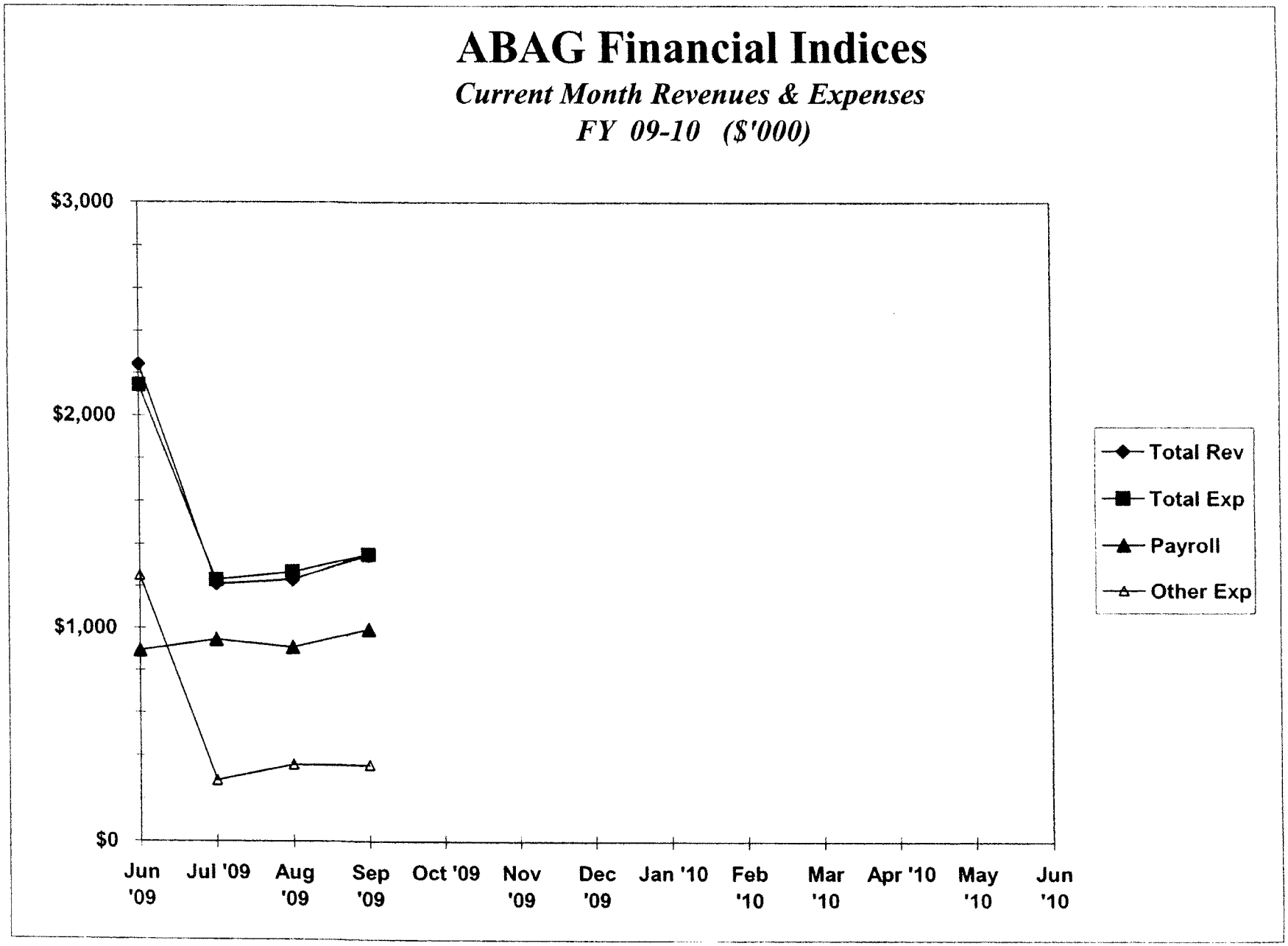
FIGURE 2



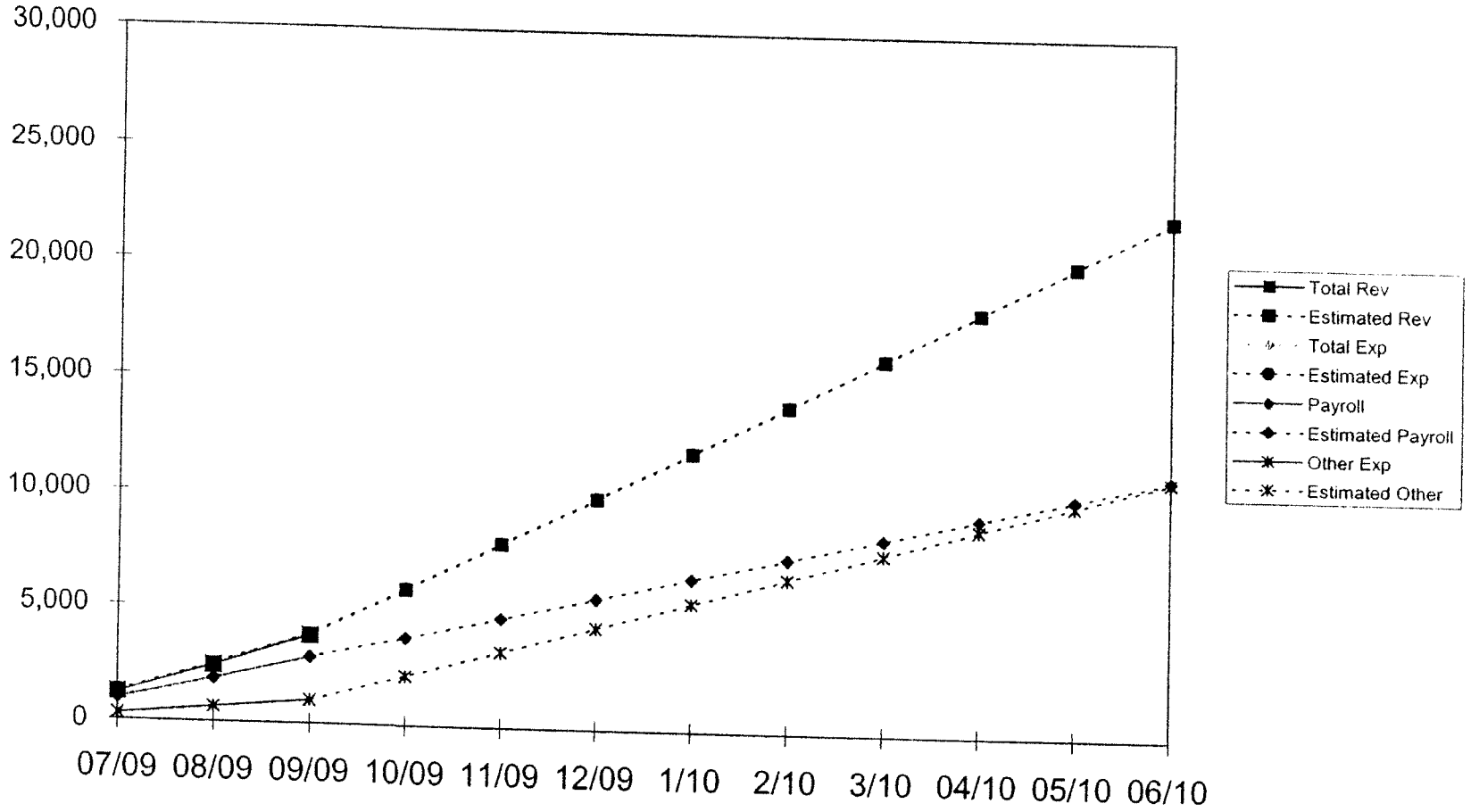
Source: ABAG- INDICES 2009-09.xls

FIGURE 3

ABAG Financial Indices

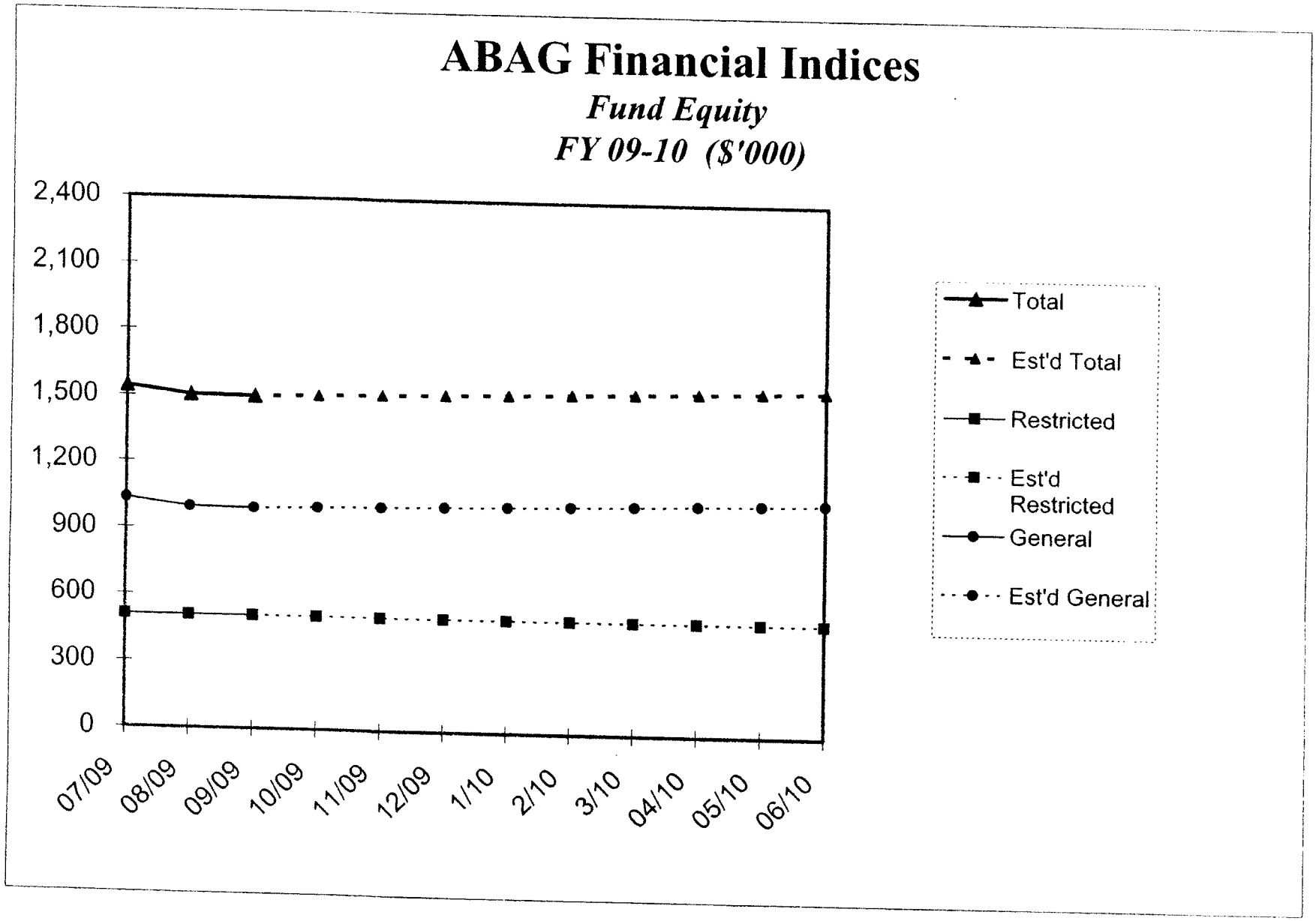
Year-to-date Revenues & Expenses

FY 09-10 ($'000)



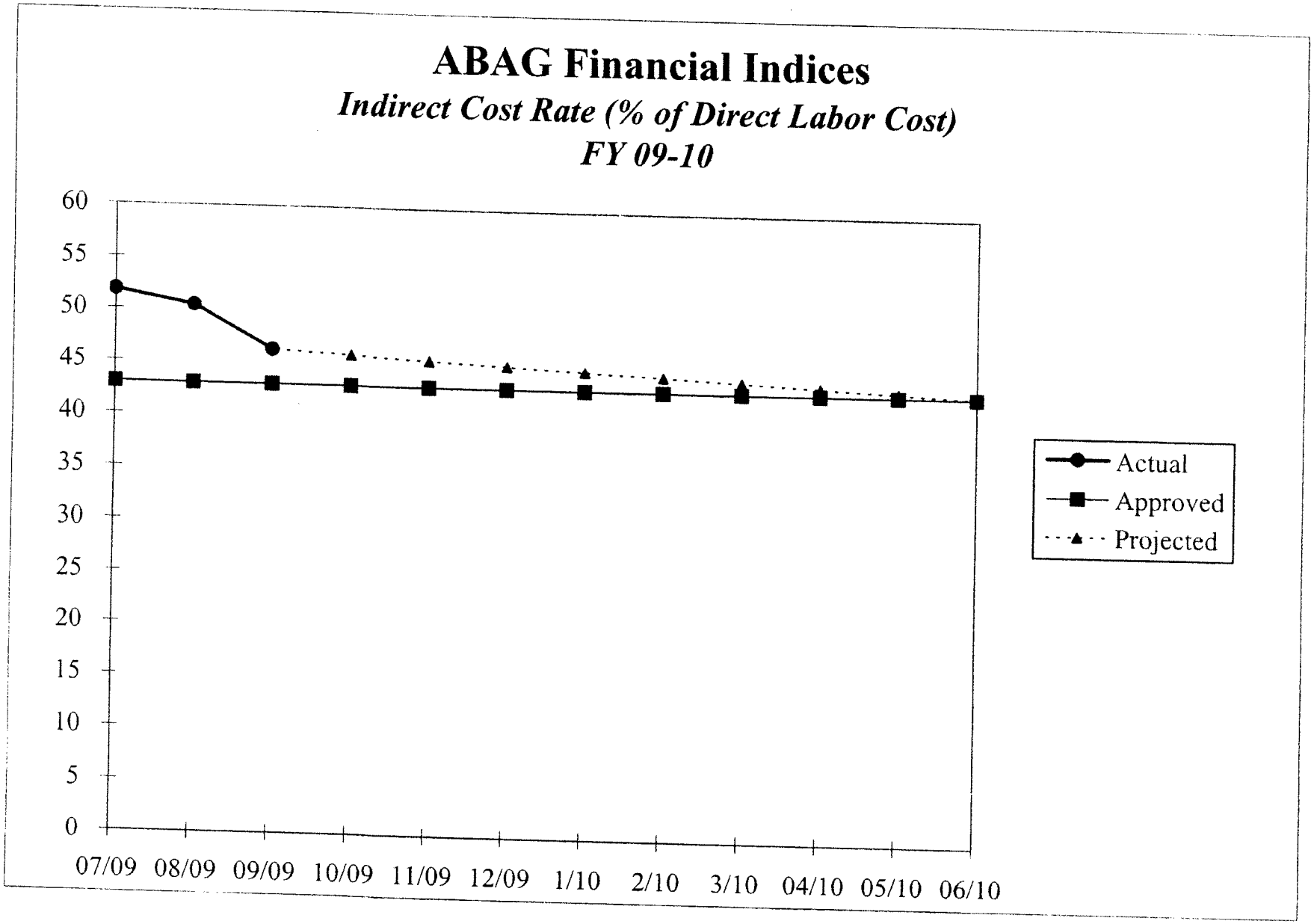
Source: ABAG - INDICES 2009-09.xls

FIGURE 4



Source: ABAG - INDICES 2009-09.xls

FIGURE 5



Source: ABAG- INDICES 2009-09.xls

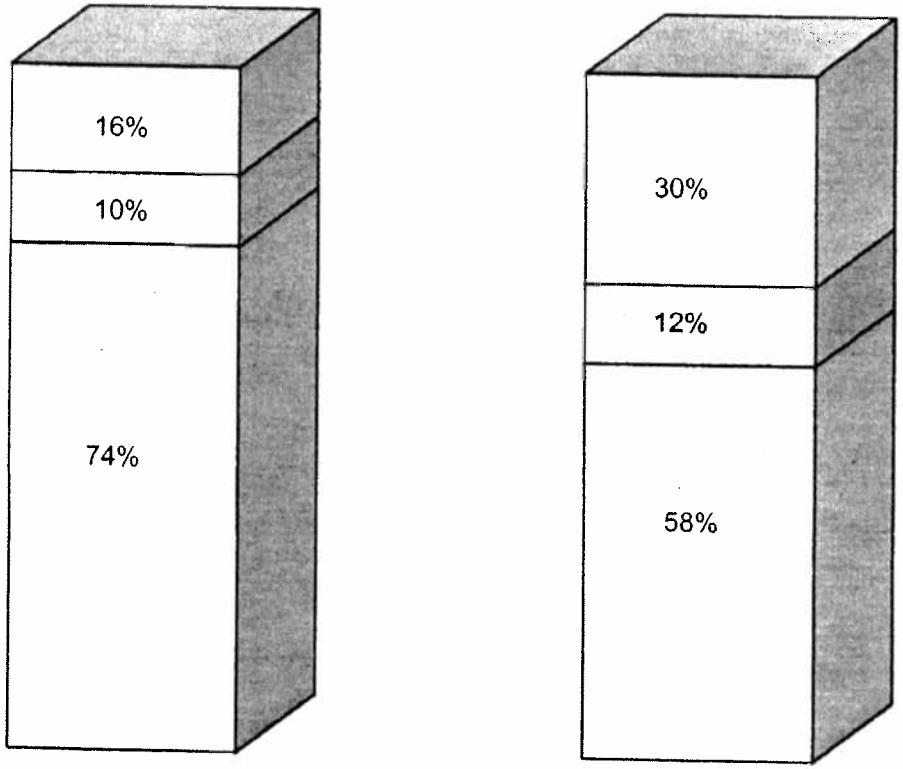
FIGURE 6

ABAG Financial Indices

Composition of Expenses FY 09--FY 10

Year to Date

($'000)



	FY09-10 Expenses (Total $3,849)	FY08-09 Expenses (Total $4,453)
☐ Consultants	$600	$1,358
☐ Others	$398	$521
☐ Payroll	$2,851	$2,574

Source: ABAG -INDICES 2009-09.xls

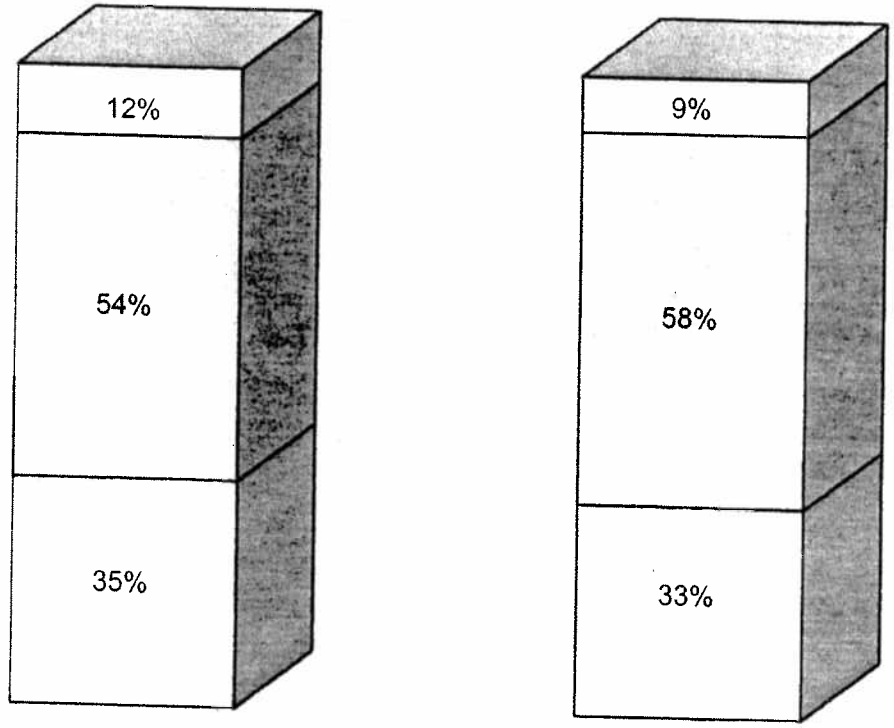
Figure 7

ABAG Financial Indices

Composition of Revenues FY 08--FY 09

Year to Date

($'000)



	FY 09-10 Revenue (Total $3,790)	FY 08-09 Revenue (Total $4,528)
☐ Membership	$416	$401
☐ Grants	$2,032	$2,638
☐ Services & Others	$1,342	$1,489

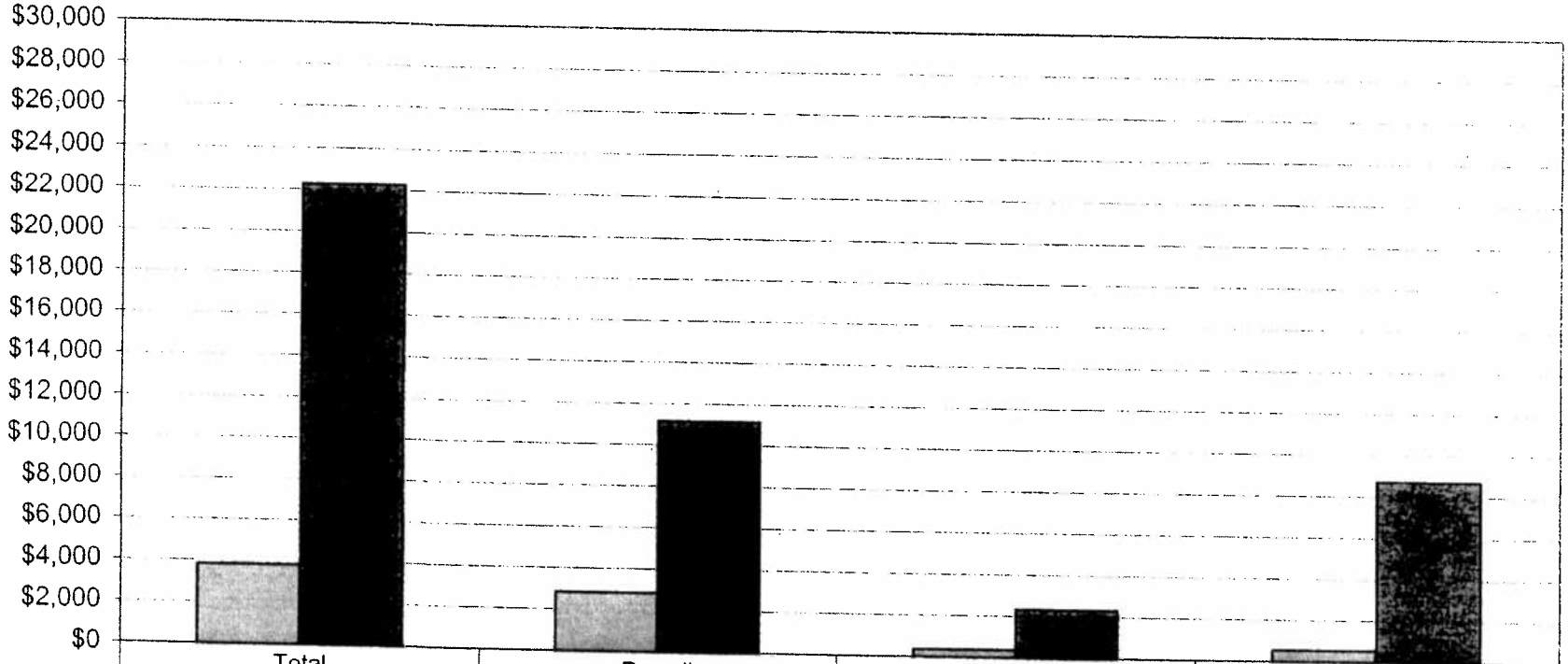
Source: ABAG --- INDICES 2009-09.xls

Figure 8

ABAG Financial Indices

Actual vs Projected Expenses--FY 09-10

Year to Date ($'000)



	Total	Payroll	Other	Consultants
Actual	$3,849	$2,851	$398	$600
Projected	$22,300	$11,178	$2,368	$8,754

Source: ABAG -- INDICES 2009-09.xls

Figure 9

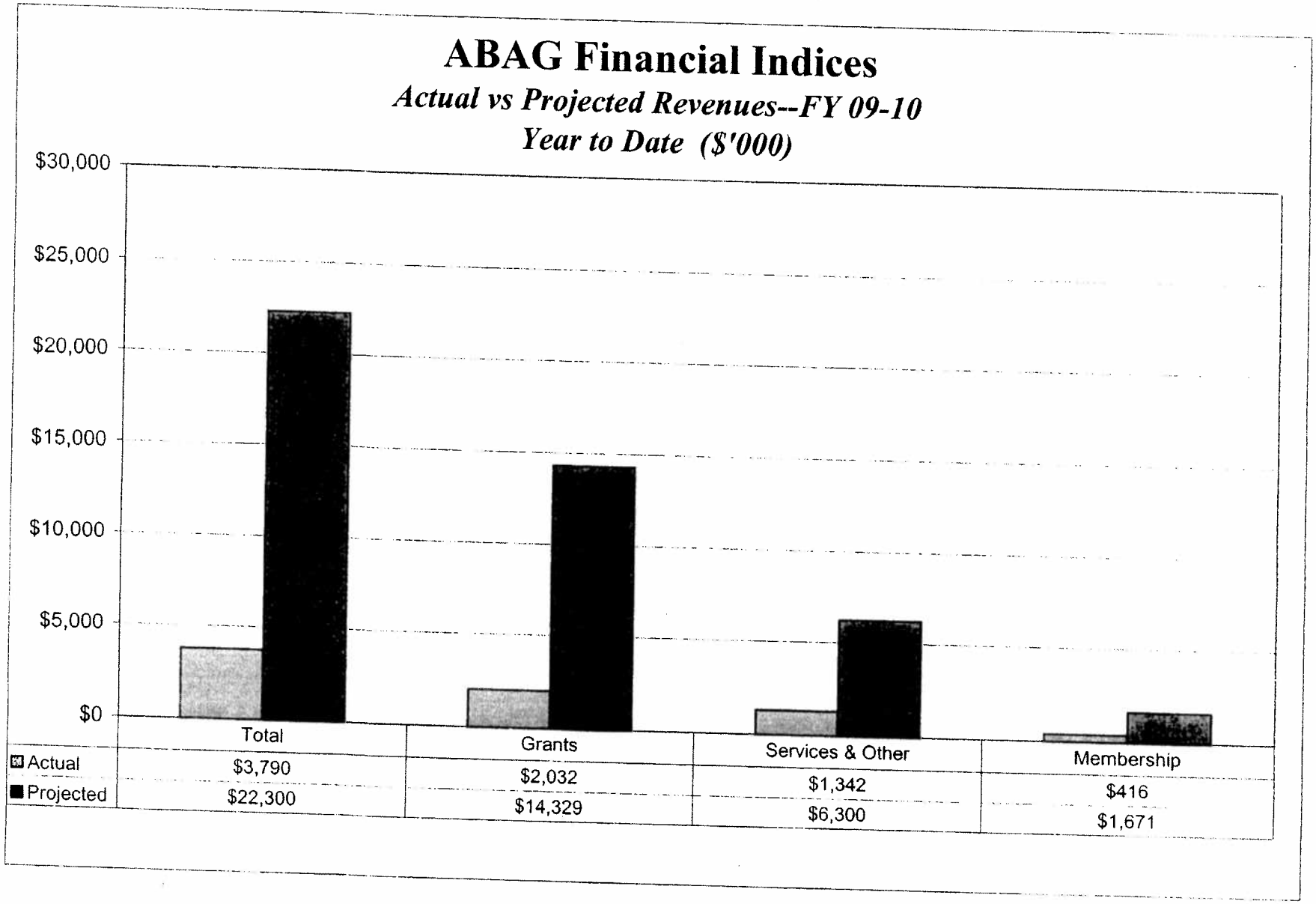


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Figure 10

Description of Charts

Figure 1 -- Cash on Hand

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Figure 2 -- Accounts Receivable

Accounts receivable tracked by this chart include receivables generated by grants and service programs over two fiscal years. This chart reflects the reasonableness of our receivable levels. We usually have about six weeks' worth of our annual revenues in receivables.

Figure 3 -- Current Month Revenues and Expenses

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 agency.

Figure 4 -- Year-to-date Revenues and Expenses

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 agency.

Figure 5 --Fund Equity

Presents general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building bond interest, building maintenance, self-insurance and capital. These restricted equities represent the agency's equities set aside for specific purposes as approved by the Finance and Personnel Committee. Total equity is the sum total of general and restricted equities.

Figure 6 -- Indirect Cost Rate (% of Direct Labor Cost)

This chart 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 A-87.

Figure 7 – Composition of Expenses

This chart compares expenses for current and last fiscal years. It groups expenses into two broad categories -- payroll costs and other expenses.

Figure 8 -- Composition of Revenues

Presents a break down of total revenues into four main sources -- membership, grants, services and others. This chart compares revenue sources between current and last fiscal years.

Figure 9 -- Actual vs. Budgeted Expenses

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

Figure 10 -- Actual vs. Budgeted Revenues)

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

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ASSOCIATION OF
BAY AREA GOVERNMENTS

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

AGENDA ITEM 5

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ASSOCIATION OF BAY AREA GOVERNMENTS
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

Table of Contents

Page

INTRODUCTORY SECTION

Table of Contents i

FINANCIAL SECTION

Independent Auditors' Report 1

Management's Discussion and Analysis 3

Basic Financial Statements

Statement of Net Assets 18

Statement of Activities 19

Statement of Cash Flows 20

Notes to Basic Financial Statements 21

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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) for the year ended June 30, 2009, 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 at June 30, 2009, 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.

As described in Note 9, 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*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2009 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 9, 2009

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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, 2009 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 in flows and out flows 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.

FISCAL YEAR 2009 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Association's total assets were $6.1 million at June 30, 2009. At June 30, 2008, total assets were $5.5 million. This represents an increase in grant receivables of almost $1.2 million offset primarily by reduction in cash and investments.

- The Association's total revenues, including program and general revenues, were $18.6 million in FY 2009, while total expenses were $18.7 million.

- The Association's total net assets decreased $72 thousand in FY 2009 to a new total of $2.0 million at June 30, 2009. This figure includes Restricted Net Assets of $190 thousand in the BALANCE Foundation designated for the Tranter-Leong Internship Program.

- ABAG program operating revenues were $18.6 million in FY 2009, while ABAG Finance Corporation operating revenues were $1 thousand and BALANCE Foundation operating revenues were $84 thousand.

- ABAG program operating expenses were $18.6 million in FY 2009, while ABAG Finance Corporation operating expenses were $18 thousand and BALANCE Foundation operating expenses were $103 thousand.

- General revenues and expense, was a net revenue of $3 thousand in total, of which $25 thousand of net interest expense was realized by the ABAG program, $29 thousand in net revenue was reported by the BALANCE Foundation, including the receipt of $21 thousand in restricted donations designated for the Tranter-Leong Internship Program.

- ABAG net assets were $1.6 million at June 30, 2009, while ABAG Finance Corporation net assets were $71 thousand and BALANCE Foundation net assets were $382 thousand at that date.

CAPITAL ASSETS

At June 30, 2009, the Association had $488 thousand, net of depreciation, invested in capital assets, an increase over the prior year of $168 thousand. The increase is primarily attributed to the addition of the seismic retrofit project of $263,400 offset by depreciation. Of the total $488 thousand, it is comprised mostly of its share of the MetroCenter Facility, including seismic upgrades. Further details of the Association's capital assets are presented in Note 3 to the financial statements.

DEBT ADMINISTRATION

The Association accumulated new debt in FY 2009 in the amount of $263,400 for seismic retrofit work at its MetroCenter offices. During FY 2009, ABAG repaid $40,000 of its seismic retrofit debt and $225 thousand of its original debt on the MetroCenter Offices. As of June 30, 2009, there was a remaining debt of $245 thousand balance in short-term debt for the MetroCenter Offices with a final payment to be made in December 2009. The remaining balance of the seismic retrofit debt is $223,400 of which $40,000 is due in FY 2010 and the final $183,400 to be paid in FY 2011. The Association's debt balances and transactions are discussed in detail in Note 4 to the financial statements.

MAJOR PROGRAM INITIATIVES IN FY 2009 AND OUTLOOK FOR FY 2010

We are happy to report the following accomplishments in fiscal year 2009 and goals for fiscal year 2010:

Planning Programs

1. In collaboration with the Metropolitan Transportation Commission (MTC), continued to work on Focusing the Bay Area Vision, funded by the Federal Department of Transportation through Cal-Trans to develop a Regional Blueprint for the Bay Area. FOCUS is in its fourth year, and has become a major undertaking. This year, 98 Priority Conservation Areas (PCAs) were adopted; these are areas of regional significance that have broad community support and an urgent need for protection.

2. Through the Regional Planning Committee (RPC), one of the standing committees of the ABAG Executive Board, 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.

3. Continued to work with the Regional Airport Planning Commission, 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.

4. 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.

In fiscal year 2010 the Planning Program will:

1. ABAG Planning Programs will continue to advance and fine tune an integrated regional planning program that recognizes regional development and conservation priorities and that advances inclusive and collaborative planning at the local level.

2. Planning staff will also work collaboratively with public resource agencies, local governments, and the region's open space entities to identify those scenic and natural resource areas that are the Bay Area's conservation priorities.

3. Planning staff, in concert with the Metropolitan Transportation Commission (MTC), will work to identify pathways toward meaningful implementation of Senate Bill 375 (2008) in coordination with local jurisdictions, congestion management agencies, transit providers, and other stakeholder entities.

4. Planning staff will work with the state government, our regional agency partners, and the non-profit community to identify and provide for an expanding range of incentives for development in priority development areas. 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.

5. Planning staff will work cooperatively with state resource agencies, local governments, and regional open space entities to protect the region's priority conservation areas.

6. Planning staff will continue to advance efforts to link regional housing needs with housing development incentives and regional infrastructure investments. This includes providing incentives and technical assistance for development in priority development areas; writing and publishing an annual Housing Report to highlight regional issues, identify regional needs, and provide examples of best practices; and holding an annual Housing Conference to highlight regional trends and local progress on housing implementation to provide information on housing incentives and best practices.

7. Planning staff will support the Regional Planning Committee (RPC) in addressing and making policy recommendations to the ABAG Executive Board pertaining to important regional planning issues including considerations relative to areas in the region prioritized for development and for conservation as well as related issues pertaining to potential incentives for priority areas.

8. Planning staff will support the RPC in making significant advances relative to its roles as the Regional Recovery Planning body for the Bay Area.

9. Planning staff will continue its clearinghouse functions including tracking of public projects to allow review and discussion of regionally significant projects.

10. Planning staff will provide support and provide leadership to advance the Regional Airport Planning Commissions work program.

11. Planning staff will expand upon previous efforts to advance ABAG's leadership role in coordinating regional planning initiatives in the Bay Area.

Bay Alliance for Sustainable Communities (Bay Area Alliance)

ABAG represents the Bay Area cities and counties in the Steering Committee of the Bay Area Alliance, a consortium of both public and private agencies founded in 1997 with a goal of working together for a sustainable future.

1. The coalition authored the *Compact for a Sustainable Bay Area*, which recommends strategies for preserving and protecting the natural environment, fostering a robust economy, and providing equitable opportunities to all residents.

2. The coalition has published six installments of *Faces of Sustainability*, highlighting practices in local counties that demonstrate sustainable practices.

3. The Alliance produced *Building Communities We Care About*, a compelling video that features the personal stories of people who are living in successful transit-oriented developments in the Bay Area.

In fiscal year 2010 the Bay Area Alliance will:

1. Promote the development of comprehensive climate action plans and policies that address the needs and interests of social equity, environmental and economic stakeholders.

Hazardous Waste Allocation/Bay Area Green Business Program

1. Through the Hazardous Waste Management Facility Allocation Committee, a committee comprising county representatives, continued to oversee the implementation of a "fair share" facility allocation process, coordinate the Bay Area Green Business Program, and identify opportunities to take action on critical pollution prevention issues.

2. Analyzed data and reports on hazardous wastes generated in the region, and developed source reduction recommendations.

3. Supported local and statewide efforts to promote Extended Producer Responsibility, which would shift the responsibility for recycling or disposing hazardous products from local governments back to manufacturers.

4. Participated in the Department of Toxic Substances Control's Green Chemistry Initiative, by promoting Environmentally Preferable Purchasing to ABAG members.

5. Launched in 1996, the Green Business Program has certified 1,500 businesses and public agencies. Now considered a model, the Program is expanding nationwide.

In fiscal year 2010 the Hazardous Waste Allocation/Bay Area Green business Program will:

1. Monitor and support legislative and other efforts to implement Extended Producer Responsibility for universal wastes.

2. Participate in and support Cal EPA/DTSC's Green Chemistry Initiative to promote Environmentally Preferable Purchasing and "green" product design.

3. Increase the number of certified green businesses in the Bay Area to 2,000.

4. Implement a web-based measurement system to track environmental benefits of Green Business participation.

5. Convert Green Business listings to a searchable database that will make it easier for Bay Area residents and businesses to find certified Green Businesses.

San Francisco Bay Trail

1. In FY 2009, the Bay Trail reached two important milestones—it celebrated its 20th anniversary of the Bay Trail Plan and has 300 miles of completed trail around San Francisco Bay. The vision of this program is a 500-mile continuous trail along the shoreline of San Francisco Bay that will connect nine counties, 47 shoreline cities, and over 130 local, regional and state parks.

2. An Additional $3 million was authorized from Proposition 84 bringing the current grant program to $6 million for Bay Trail planning and construction projects.

3. A$100,000 grant from the Goldman Fund was secured in coordination with the Bay Area Ridge Trail Council to move forward with completing the Carquinez Strait Scenic Loop Trail.

4. Staff initiated the Regional Sign Installation Plan to identify locations for new signs along completed sections of the Bay Trail.

5. The Bay Trail's landmark wildlife and public access study was published in the *Journal of Wildlife Management.*

In fiscal year 2010 the San Francisco Bay Trail will:

1. In partnership with the Coastal Conservancy, solicit, review and award grants to local jurisdictions for construction of Bay Trail segments.

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

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

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

5. Continue to highlight trails as components of a sustainable region and a regional transportation system.

6. 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.

7. Complete the installation of Bay Trail signs along all complete sections of the Bay Trail.

8. Publish the *Bay Trail Rider* newsletter.

9. Update the Bay Trail website to create a valuable resource for regional partners and the public about progress of the Bay Trail.

San Francisco Estuary Partnership (SFEP)

1. Using the Comprehensive Conservation and Management Plan (CCMP) as a blueprint for action, the Estuary Partnership and its many partners have completed a range of activities from technical and scientific research to public education and outreach toward the Partnership's mandate to protect, enhance and restore the San Francisco Bay-Delta Estuary.

2. The Partnership produced the highly successful Fifth Biennial CalFed Science Conference held in October 2008, attended by over 1200 managers and scientists.

3. Staff managed over 30 grants and contracts totaling over $20 million directed at reducing pollutants, improving stream protections, decreasing watershed erosion, improving subtidal habitats of the Bay, improving stormwater quality, increasing the function and extent of bay wetlands, and improving public understanding of Clean Water Act issues.

4. Completed the Brake Pad Partnership, a multi-year grant to determine impacts on water quality due to copper in automobile brake pads and stormwater.

5. Completed the Prism Tools Project, enabling labs that conduct toxicity testing to make a strong link to pyrethroid insecticides and to identify pyrethroid-related toxicity across California.

6. Developed an IPM Contracting Tool Kit for local government to use in obtaining Integrated Pest Management services.

7. Continued to develop recommendations to reduce methyl mercury in the Bay Area wetlands.

8. Continued to develop methods to reduce methyl mercury and low dissolved oxygen in Suisun Marsh.

9. Continued, in concert with the Regional Water Quality Control Boards of San Francisco Bay and North Coast and other partners, to work toward completion of a stream and wetland protection policy for the two regions.

10. With partners, continued work to prevent the introduction and spread of invasive species to the Estuary.

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

12. Continued to provide technical and communication assistance to the Regional Water Quality Control Board, including administration of a multi-year $2.6 million project for implementation of Total Maximum Daily Loads (limiting pollutants into waterways of the state), and oversight of environmental projects mandated as part of their Administrative Civil Liability fines.

13. Continued outreach and education through the Boater Education Program, publication of *Estuary* newsletter, and organizing erosion control workshops.

In fiscal year 2010 the San Francisco Estuary Project will:

In addition to continuing projects mentioned above:

1. Organizing and planning the ninth biennial State of the Estuary Conference in September 2009 with over 800 expected attendees.

2. Work with the Urban Pesticide Committee to reduce pesticide use in urban creeks.

3. Write and publish the *2010 State of the Estuary Report.*

4. Work with partners to utilize the State's Watershed Assessment Framework as a tool for integrating and communicating watershed health indicators for the San Francisco Estuary, as part of the CALFED Bay-Delta Program.

5. Work with partners on the San Francisco Bay Subtidal Habitat Goals Project, an effort to establish a comprehensive and long-term management vision for protection, restoration, and appropriate use of San Francisco Bay Subtidal habitats.

6. Implement stormwater and flood protection projects in the West Coast Estuaries Initiative grant including wetland restoration in City of Hercules, stream restoration in City of Pinole, monitoring replacement of impermeable pavement in San Mateo County and training students in wetland restoration.

7. Initiate work on 17 local projects across the estuary through $5 million in grant funds recently awarded by the US Environmental Protection Agency.

Earthquake and Hazard Mitigation and Recovery

1. Encouraged quality seismic retrofits of single-family homes through promotion of a standardized plan set and conducting a contractor training program.

2. Worked to consolidate the assessment of the hazard of "soft-story" multifamily residential buildings, developing innovative approaches for mitigation, and implementing these mitigation strategies.

3. Assessed the issues related to water system vulnerability, including pipelines and the interaction with sewage systems.

4. Updated the multi-jurisdictional Local Hazard Mitigation Plan for the San Francisco Bay Area, including incorporation of the findings of the disaster recovery initiatives.

5. Continued with discussion and training of the Regional Planning Committee on issues related to disaster recovery.

6. Developed a model disaster recovery plan, using the City of Oakland as a pilot project.

In fiscal year 2010 Earthquake and Hazard Mitigation and Preparedness will:

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

Research, Data and Analysis

1. Completed work on the *Projections 2009*, the biennial long-term economic forecast providing the basic economic and demographic forecast data through 2035.

2. Worked closely with MTC staff to evaluate the impacts the *Projections 2009* projected land use patterns on transportation-related carbon emissions, as well as several performance targets called for in SB 375 and the Sustainable Communities Strategy.

3. Secured funding and selected an improved forecast computer model (PECAS) to provide results that are more accurate, more extensive and better coordinated with the transportation models used by MTC.

4. Completed the 2009 Housing Report, an annual report that tracks production of various types of housing in the region, including information on housing prices and changes in the housing market.

5. Held over 100 conferences and workshops during the year to brief local governments, business, and community stakeholders on the highlights and implications of the forecasts produced.

In fiscal year 2010, Research, Data and Analysis will:

1. Develop SB 375 Regional Targets and SB 375 Workplan and Outreach resulting in a Sustainable Communities Strategy.

2. Implement a more robust PECAS Modeling system that will enable more refined, interactive scenario projections.

3. Produce the region's Annual Housing Report.

4. Develop and present the Bay Area's 21st annual Short Term Economic Forecast.

ABAG Publicly-Owned Energy Resources (POWER)

1. Completing its eleventh year of operation, ABAG POWER has been providing natural gas aggregation services to currently 38 local governments and special districts in the Pacific Gas and Electric (PG&E) territory.

2. Continued work on the ABAG Energy Watch program, a partnership with PG&E designed to assist local governments to achieve energy and cost savings by improving energy efficiency in public facilities. To date, 70 cities, counties and special districts within the Bay Area have "enrolled" to receive assistance from the program.

In fiscal year 2010 ABAG POWER will:

1. Continue to explore various natural gas purchasing strategies with the objective to enhance price stability.

2. Through the in-house billing and analysis system, propose strategies that will reduce energy costs through conservation and usage management. A pilot project that will provide additional energy data analysis is planned.

3. With the grant contract from PG&E through December 2009, the ABAG Energy Watch program will continue to work with local government entities to complete approved energy efficiency projects.

4. POWER expects to transition to a new "Green Communities" program developed by PG&E to help local governments implement their Climate Action efforts.

5. Final distributions of settlement proceeds are expected to be dispersed by November 2009.

Insurance Pool Programs

1. Organized in 1986, the ABAG Pooled Liability Assurance Network (PLAN) Corporation continued to provide general liability and property insurance to currently 31 cities and towns in the Bay Area. Total assets of PLAN have grown to exceed $48 million.

2. PLAN offered assistance to local governments in risk management programs, including the Sewer Smart Program, as well as other training and incentive-based loss prevention programs.

3. Since 1989, the ABAG Comp Shared Risk Pool (SHARP) has continued to offer workers comp insurance pool as an alternative to commercial insurance policies to currently four local government jurisdictions.

In fiscal year 2010 the Insurance Pool Programs will:

1. Under the Liability Program, increase coverage from $20 to $25 million, maintain a stable loss funding rate and revise funding policies.

2. Under the Property Program, provide stable premium and coverage, provide property appraisals and boiler inspections for key facilities, and continue recoveries from responsible parties for damage of member property.

3. Under the Risk Management Program, expand training programs and locations, customize on-site risk management assistance for each member, provide incentive grants for implementing best practices, and continue the award-winning Sewer Smart loss prevention program.

4. Under the Workers Compensation Program, maintain stable rates, continue financial strength, provide ongoing claim reviews, and provide loss prevention program funding.

ABAG Financial Services

1. To date, ABAG Financial Services has provided a total of more than $7 billion in low cost capital financing for more than 200 California government jurisdictions and their non-profit partners.

2. Residents in borrowing government jurisdictions benefit from Association financing projects in many ways, including construction of new hospitals and medical clinics, mass transit systems, affordable housing, schools, museums, water and wastewater systems.

3. Association financings have funded construction and preservation of more than 10,000 housing units in more than seventy affordable apartment communities.

4. The Association continues to offer the California Redevelopment Agency Pool (Cal-Rap), its industry leading tax-allocation bond product as well as its credit-enhanced, pooled financing vehicle for Water and Wastewater Districts. Both of these financing pools provide extremely economical means to attain bond insurance and low interest rates for the smaller borrowing needs of special districts.

In fiscal year 2010 ABAG Financial Services will:

1. Continue to provide economical funding for developers of affordable multi-family housing, independent schools, hospitals, clinics and other voluntary healthcare providers through ABAG Finance Authority for Non-profit Corporations.

2. Expand the Finance Authority's capital lease financing services for member jurisdictions through the Authority's long-standing Credit Pooling Program, providing an economical source for funding equipment and smaller capital projects.

3. Continue to offer comprehensive services to meet the land development financing needs of member agencies. The Agency will conduct proceedings for special district formation in full compliance with Prop. 218 requirements complementing ABAG's established programs for the issuance of special district financing.

4. Explore development of a new program for the financing of residential solar energy installations.

ABAG Training Center

1. Over the past few years, we have experienced a shift in training needs of ABAG members to practical, certificate courses in worker safety, hazardous waste management, pollution prevention, and computer technology. As a result, the overwhelming majority of our courses currently offered are in Occupational Safety and Health Administration (OSHA) required safety training.

2. The development of the Internet allowed us to offer courses not only to employees of Bay Area local governments, but also to students throughout the entire country. In 1999, ABAG established a web-based identity—www.hazmatschool.com. We had 125 online enrollments during its first year, growing rapidly to more than 7,000 students per year.

3. Since 2002, ABAG has been an authorized Continuing Education Unit (CEU) provider of the International Association for Continuing Education Training (IACET).

4. In 2004, ABAG was awarded a Federal GSA contract, which places ABAG Online Hazmat School on the authorized training provider selection list for Federal employees.

In fiscal year 2010 ABAG Training Center will:

1. Tackle the challenge to maintain growth in a slow economy.

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

3. Strive to maintain personalized service and a worthwhile training experience for our members and clients.

ABAG Web Services

1. 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.

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

3. The Association currently offers Internet hosting services to 28 local governments and other public agencies. Customized websites have also been created for clients such as the Alameda County Transportation Improvement Authority, the San Francisco Bay Water Emergency Transit Authority, the CALFED Science Program, the cities of Fairfax and Orinda, and the Delta Diablo Sanitation District.

4. To better serve our 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 our clients and saved staff cost.

5. In collaboration with the California State Association of Counties (CSAC), implemented a business recovery solution by placing backup servers at the CSAC offices in Sacramento. This backup system would provide continued limited critical operations in the event of business disruption at the ABAG offices caused by a variety of disasters.

In fiscal year 2010 ABAG Web Services will:

1. 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. Working with the Legislative and Governmental Organization (L&GO) Committee, a subcommittee of the ABAG Executive Board, set legislative priorities for 2008-09 that they will continue to pursue in 2009-10. These priorities include the pursuit of resources and incentives for planning, infrastructure and services to assist local governments and related climate change land use solutions; bills reflecting recommendation from the ABAG Youth Gun Violence Task Force; and the Long Term Financial Disaster Recovery Planning Initiative.

2. The Committee considered 32 state bills during the past 2008 session. Twelve of these bills became law and four were vetoed.

In fiscal year 2010 Legislative Activities will:

1. Continue legislative advocacy and outreach to legislators briefing them on Bay Area issues and policy solutions critical to land use, transportation, resource management, and climate action goals.

2. Track legislation affecting land use, transportation, water management planning and their links to better environment. Continue to closely monitor finance reform and the fiscal impacts of potential unfunded mandates on local government.

3. Work with legislators on developing a stable source of income for regional planning agencies.

Other Initiatives

1. In March 2008, the Executive Board approved the final version of a Long-term Strategic Plan, with the objectives of:

   - Identifying and securing predictable and reliable long-term funding;
   - Establishing a more effective regional voice representing Bay Area jurisdictions in Sacramento, Washington and other policy arenas; and
   - Developing a plan to increase the Association's responsiveness to, and accountability for, addressing the diverse needs of member jurisdictions.

2. To provide visibility for our members who are effectively advancing the cause of Smart Growth and Focus Initiatives, ABAG presented the Third Annual "Growing Smarter Together" awards program. The member jurisdictions that were recognized for best practice efforts were recognized in a special video presentation at ABAG's 2009 Spring General Assembly.

3. The Fall General Assembly was held in October 2008 titled: "Regional Water-Land Use Planning: The Delta Connection," addressing critical water and land use policies and environmental challenges impacting the Bay Area and Delta.

4. The Spring General Assembly was held in April 2009 titled: "SB 375: Reduce Greenhouse Gas Emissions through Land Use and Transportation Planning," addressing ways to achieve the sustainable communities goals set forth in the SB 375 legislation.

5. Plans were commenced to hold the next Fall General Assembly in October 2009 titled: "Planning and Development During Economic Downturns: Building New Partnerships."

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, 2009

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total
ASSETS				
Current Assets				
Cash and Investments (Note 2):				
Cash and Cash Equivalents	$895,902	$29,720	$385,439	$1,311,061
Cash with Fiscal Agent (Note 2)	303,264			303,264
Receivables:				
Federal, State and Local Grants	3,670,130		15,000	3,685,130
Interest	1,397		1,307	2,704
Prepaid Expenses and Other	245,525	40,987		286,512
Total Current Assets	5,116,218	70,707	401,746	5,588,671
Noncurrent Assets				
Capital Assets, Net of Accumulated Depreciation (Note 3)	487,900			487,900
Total Assets	5,604,118	70,707	401,746	6,076,571
LIABILITIES				
Current Liabilities				
Accounts Payable	1,751,208		19,692	1,770,900
Compensated Absences (Note 1E)	479,156			479,156
Other Accrued Liabilities	686,981			686,981
Current Portion of Long-Term Obligations (Note 4)	285,000			285,000
Unearned Revenue	655,449			655,449
Total Current Liabilities	3,857,794		19,692	3,877,486
Noncurrent Liabilities				
Long-Term Obligations, Net of Current Portion (Note 4)	183,400			183,400
Total Liabilities	4,041,194		19,692	4,060,886
NET ASSETS (Note 7)				
Investment in capital assets, net of related debt	242,900			242,900
Restricted			189,589	189,589
Unrestricted	1,320,024	70,707	192,465	1,583,196
Total Net Assets	$1,562,924	$70,707	$382,054	$2,015,685

See accompanying notes to basic financial statements

ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total
OPERATING REVENUES				
Grants	$11,107,310			$11,107,310
Charges for Services	5,638,893	$1,107	$5,000	5,645,000
Membership Dues	1,602,539			1,602,539
Donations - Unrestricted	63,650		79,150	142,800
Other	143,732			143,732
Total Operating Revenues	18,556,124	1,107	84,150	18,641,381
OPERATING EXPENSES				
Salaries and Related Benefits	10,510,691			10,510,691
Consultant Services	6,170,258	18,265	63,151	6,251,674
Equipment, Maintenance and Supplies	218,487		388	218,875
Outside Printing Costs	128,733		348	129,081
Conference and Meeting Costs	352,651		250	352,901
Depreciation	169,068			169,068
Building Maintenance	238,992			238,992
Postage	65,420			65,420
Insurance	142,669			142,669
Telephone	56,298			56,298
Utilities	79,881			79,881
Committee	69,450			69,450
Other	392,396		39,187	431,583
Total Operating Expenses	18,594,994	18,265	103,324	18,716,583
Net Program Operating Income (Loss)	(38,870)	(17,158)	(19,174)	(75,202)
NONOPERATING REVENUE (EXPENSE)				
Interest Income	33,970	81	7,510	41,561
Interest Expense	(59,256)		(15)	(59,271)
Donations - Restricted for Internship Program			21,200	21,200
Total Nonoperating Revenue (Expense)	(25,286)	81	28,695	3,490
Change in Net Assets	(64,156)	(17,077)	9,521	(71,712)
Beginning Net Assets	1,627,080	87,784	372,533	2,087,397
Ending Net Assets	$1,562,924	$70,707	$382,054	$2,015,685

See accompanying notes to basic financial statements

ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Grant receipts	$9,302,622			$9,302,622
Receipts from customers and members	7,305,082	$1,107	$69,150	7,375,339
Payments to contractors and members	(6,304,151)		(48,861)	(6,353,012)
Payments to employees	(10,510,691)			(10,510,691)
Payments to committees	(69,450)			(69,450)
Other receipts (payments)	(151,340)		(39,187)	(190,527)
Net cash flows from operating activities	(427,928)	1,107	(18,898)	(445,719)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Repayment of long-term obligations	(265,000)			(265,000)
Interest paid	(59,256)		(15)	(59,271)
Addition to capital assets, net of loss on disposal	(73,441)			(73,441)
Net cash flows from capital and related financing activities	(397,697)		(15)	(397,712)
CASH FLOWS FROM NONCAPITAL AND FINANCING ACTIVITIES				
Donations received			21,200	21,200
CASH FLOWS FROM INVESTING AND RELATED FINANCING ACTIVITIES				
Interest received	40,047	81	7,736	47,864
Net changes in cash and cash equivalents	(785,578)	1,188	10,023	(774,367)
Cash and cash equivalents at beginning of year	1,681,480	28,532	375,416	2,085,428
Cash and cash equivalents at end of year	$895,902	$29,720	$385,439	$1,311,061
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	($38,870)	($17,158)	($19,174)	($75,202)
Adjustments to reconcile operating income to cash flows from operating activities:				
Depreciation	169,068			169,068
Change in assets and liabilities:				
Receivables	(1,072,113)		(15,000)	(1,087,113)
Prepaid expenses and other assets	(89,555)	18,265		(71,290)
Accounts payable	776,303		15,276	791,579
Compensated absences	40,524			40,524
Other accrued liabilities	421,966			421,966
Unearned revenue	(635,251)			(635,251)
Net cash provided by (used for) operating activities	($427,928)	$1,107	($18,898)	($445,719)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Long-term obligations/Capital asset acquisition	$263,400			$263,400

See accompanying notes to basic financial statements

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's financial statements include the operations of the Association, ABAG Finance Corporation, and the Bay Area Leaders Addressing the Challenge of the Economy and Environment Foundation (BALANCE). These three entities are controlled by the General Assembly through the Executive Board. Each of these entities is discussed below:

The Association

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

ABAG Finance Corporation

The 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.

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:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $2,482,451 for these services and $274,165 for contract services in the fiscal year ended June 30, 2009.

ABAG Finance Authority for Non-profit Corporations (FAN) assists non-profit corporations in obtaining financing. The Association assists FAN in issuing tax-exempt debt. It also provides administrative and management support. FAN paid the Association $1,237,417 for these services in the fiscal year ended June 30, 2009.

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 $58,640 for these services and $30,319 for contract services in the fiscal year ended June 30, 2009.

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 $340,236 for these services in the fiscal year ended June 30, 2009.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Members' dues are recognized as revenue in the year for which they are billed. Charges for members' services such as seminars, conferences and publications are recognized when the services are provided.

Program administration fees are recognized in the period when the services are rendered.

Grant reimbursements are recognized in the period the grant expenditures are made. Expenditures in excess of reimbursement are recorded as receivables if allowable under the grant, while excess reimbursements are recorded as deferred 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.

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.

NOTE 2 - CASH AND INVESTMENTS

A. *Carrying Amount and Fair Value*

Cash and investments comprised the following at June 30, 2009:

	Cash and Cash Equivalents	Cash with Fiscal Agent	Total
LAIF	$719,342		$719,342
Cash:			
Cash in Banks	590,719		590,719
Certificates of deposit		$303,264	303,264
Cash on hand	1,000		1,000
Total Cash and Investments	$1,311,061	$303,264	$1,614,325

The Association pools cash from all sources and all funds except cash with fiscal agent 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	270 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	N/A	None	None
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	$719,342
Certificates of deposit	303,264
Cash in Banks	590,719
Cash on hand	1,000
Total Cash and Investments	$1,614,325

As of year-end, the weighted average maturity of the investments in the LAIF investment pool is approximately 235 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 105% 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 $2,000.

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, 2008	Additions	Retirements	June 30, 2009
Capital Assets				
Facilities and improvements	$3,217,605	$263,401		$3,481,006
Furniture and equipment	793,643	52,875	($124,061)	722,457
Vehicles	102,360		(26,244)	76,116
Capitalized software	1,156,058	18,825	(147,520)	1,027,363
Total	5,269,666	335,101	(297,825)	5,306,942
Accumulated depreciation	(4,949,539)	(169,068)	299,565	(4,819,042)
Total	$320,127	$166,033	$1,740	$487,900

NOTE 4 - LONG TERM OBLIGATIONS

A. Additions and Retirements

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

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009 Current Portion	Balance June 30, 2009 Long-term Portion
BUSINESS-TYPE ACTIVITY					
MetroCenter					
Variable at TENR,+ .375% 12/1/09	$470,000		$225,000	$245,000	
Seismic Retrofit Project					
0% Interest rate due, 6/30/2011		$263,400	40,000	40,000	$183,400
Total	$470,000	$263,400	$265,000	$285,000	$183,400

B. 1984 MetroCenter Sale-Leaseback Agreement

Under the terms of a 1984 sale-leaseback agreement, the Association sold its MetroCenter offices to the City of Oakland and leased them back until 2009. At the end of the lease, ownership of ABAG's share of the MetroCenter building will revert to the Association. The Association received $3,300,000 on the sale from the issuance of Liquidity Facility Revenue Bonds, which it is repaying in the form of rent payments to the City of Oakland. The outstanding principal balance of these Bonds was $245,000 at June 30, 2009. Interest at a variable rate that was 0.45% at June 30, 2009, is due quarterly; principal is due annually.

The Liquidity Facility Revenue Bonds and related capital lease obligations are due December 1, 2009, subject to mandatory annual sinking fund payments and subject to prior redemption as a whole or in part. Interest is variable at TENR plus .375% (TENR is an annual rate of interest which is indicative of current yields on high quality short-term, tax exempt obligations) and adjustable in the future by a Remarketing Agent, and is payable quarterly. The interest rate is convertible to a fixed rate at the option of the Association.

At June 30, 2009, future obligation service requirements (based on a 0.45% rate for the MetroCenter obligation) for the Association's long-term obligations were as follows:

For the Year Ending June 30	Principal	Interest
2010	$245,000	$1,103

NOTE 4 - LONG TERM OBLIGATION (Continued)

C. 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, 2010. Interest is at a variable rate that shall not be less than 4.00% annually and is to be paid monthly. Pursuant to its agreement with the bank the Association assigned its future rents and revenues and pledged its interest in the building as collateral. No borrowings were made on the line of credit during fiscal year 2009.

D. Seismic Retrofit Project

In fiscal year 2007, the Association entered into an agreement with the Regional Administrative Facility Corporation to make repayments on the seismic retrofit project, which began in fiscal year 2008. The project was completed in July 2008. The total share of the local match is to be repaid as follows:

For the Year Ending June 30	Principal
2010	$40,000
2011	183,400
Total	$223,400

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	
	2009	2008
Revenue Bonds	$259,125,000	$278,255,000
Certificates of Participation	39,945,000	45,605,000
Total	$299,070,000	$323,860,000

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:

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, 2009, 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, 2009, 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	18.634%

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 2009, 2008, and 2007, were $1,734,077, $1,667,933, and $1,595,500, 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
2005	$579,276,103	$500,388,523	$78,887,580	86.4%	$129,379,492	61.0%
2006	912,988,585	787,758,909	125,229,676	86.3%	200,320,145	62.5%
2007	1,315,454,361	1,149,247,298	166,207,063	87.4%	289,090,187	57.5%

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). The provisions of this statement are applied prospectively and do not affect prior years' financial statements. Required disclosures are presented below.

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 Continue participation in PEMHCA
Benefit: Retired < 9/1/1994	100% of Kaiser single basic premium Same cap pre- & post - 65
Retired > 9/1/1994	100% of Kaiser 2-party basic premium Same cap pre- & post - 65
Surviving Spouse of Retiree	Retirement plan election Same benefit continues to surviving spouse

As of June 30, 2009, approximately 52 participants were eligible to receive benefits.

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a January 2007 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 amortization period.

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

NOTE 9 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2009, the Association funded pay-as-you-go premiums of $120,677 which represented 1.9% of the $6.5 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:

Annual Required Contribution (ARC)	$686,000
Annual OPEB cost	686,000
Contributions made:	
Association's portion of current year premiums paid	120,677
Total contributions	120,677
Contributions less than the ARC	565,323
Increase in net OPEB obligations	565,323
Net OPEB Obligation June 30, 2008	
Net OPEB Obligation June 30, 2009	$565,323

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

The Actuarial Accrued Liability representing the present value of future benefits included in the actuarial study amounted to $4.13 million as of January 1, 2007 and was unfunded since no assets had been transferred into an irrecoverable trust or CERBT as of that date.

The Plan's annual required contributions and actual contributions for the year ended June 30, 2009 are set forth below:

Fiscal Year	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of OPEB Contributed	Net OPEB Obligation
6/30/2009	$686,000	$120,677	18%	$565,323

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%

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, 2009, in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Association expects such amounts, if any, to be immaterial.

ASSOCIATION OF BAY AREA GOVERNMENTS

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009

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ASSOCIATION OF BAY AREA GOVERNMENTS

SINGLE AUDIT REPORT
For The Year Ended June 30, 2009

TABLE OF CONTENTS

Page

Schedule of Findings and Questioned Costs 1

Section I - Summary of Auditor's Results 1

Section II – Financial Statement Findings 2

Section III – Federal Award Findings and Questioned Costs 2

Section IV - Status of Prior Year Findings and Questioned Costs 3

Schedule of Expenditures of Federal Awards 4

Notes to Schedule of Expenditures of Federal Awards 5

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* 7

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 9

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ASSOCIATION OF BAY AREA GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2009

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 that are not considered to be material weaknesses?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unqualified			
Internal control over major programs:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None Reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	X	Yes		No

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
20.205	Department of Transportation, Federal Highway, Transit, and Aviation Administration
66.436	Environmental Protection Agency, EPA Estuary 2100
66.439	Environmental Protection Agency, EPA Green Infill/Clean SW
97.039	Department of Homeland Security, FEMA Grant

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

Auditee qualified as low-risk auditee? X Yes _____ No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated October 9, 2009 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

2009-01: Duplicated Vacation Charges

Awarding Agency and Program Name: Department of Transportation Highway Planning and Construction Grants, CFDA 20.205

Condition
The Auditee includes a provision for vacation, sick and float time in the billing rates charged to the grant for reimbursement. In addition to charging the billing rates for services rendered, certain staff members directly charged this program for vacation, sick and float time. A new staff member had charged the vacation time incorrectly. We noted no other instances of this issue in our tests of other projects under this program nor in our payroll tests of other federal award programs.

Questioned costs
The amount of questioned costs was $5,685 representing 73 hours charged to two projects. The questioned costs represent less than one-half of one percent of total payroll costs charged to this program and less than two percent of payroll costs tested in our audit of this program.

Effect
The client is being compensated twice for the charging of vacation, sick and float time, since the underlying charge is already included in the billing rate.

Cause
New employees are not adequately trained how to charge their vacation, sick and float time to the correct project codes. The Supervisor for these two projects was not accurately reviewing timesheets for proper classification of those hours.

Recommendation
The client should continually train their staff to properly allocate their time according to policy guidelines and procedures.

Management Response
The Association recognizes the importance of accurately charging staff time to projects and will continue to provide adequate training to new employees. The issue identified above was effectively communicated with employees. In addition, management believes technology can help to detect and prevent input errors. Staff have been working on developing an in-house electronic time entry system. The new system will provide better cross validation checks and identify errors during input process. The Association realizes unintentional errors may occur when billing grants. Therefore, the Association provides its own funds to cover additional expenses incurred for projects not reimbursed by grants. The purpose is to use the Association's funding to absorb costs incorrectly charged to grants. The Association will make appropriate adjustments in fiscal year 2009-10 to properly reimburse any grant expenses not already covered by funding from ABAG.

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

Financial Statement Prior Year Findings

We noted prior year significant deficiencies on internal controls over financial reporting as discussed in our separately issued Memorandum on Internal Control dated October 9, 2009 which is an integral part of our audits and should be read in conjunction with this report.

Federal Award Prior Year Findings and Questioned Costs

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

ASSOCIATION OF BAY AREA GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

Grantor Agency and Award Title	Identifying Pass-Through Grant #	Federal Catalog Number	Program Expenditures
Department of Transportation			
(Passed through the Metropolitan Transportation Commission)			
Highway Planning and Construction Program			
Information Analysis	Not applicable	20.205	$377,671
Planning Services	Not applicable	20.205	548,579
Focusing the Bay Area Vision	Not applicable	20.205	601,959
Federal Transit Administration			
Information Analysis	Not applicable	20.205	77,002
Planning Services	Not applicable	20.205	111,925
Federal Aviation Administration			
FAA Airport Study	Not applicable	20.205	55,749
Total Department of Transportation			1,772,885
Environmental Protection Agency			
Wetlands Protection Development:			
EPA Estuary 2100	X7-00T04701-0	66.436	318,483
EPA Green Infill/Clean SW	WS-96932601-0	66.439	106,331
Program Subtotal			424,814
National Estuary Program:			
EPA--FY 07-08 Estuary	CE-96949401-3	66.456	159,585
EPA--FY 08-09 Estuary	CE-96949401-4	66.456	402,086
EPA Stream II	CD-00T00401-0	66.461	142,511
Program Subtotal			704,182
Total Environmental Protection Agency			1,128,996
Department of Agriculture			
(Passed through University of California, Davis)			
Integrated Programs			
USDA IPM	2003-51120-2098	10.303	22,540
Total Department of Agriculture			22,540
Department of Homeland Security			
(Passed through California Emergency Management Agency)			
Federal Emergency Management Agency			
FEMA--Soft Story Grant	1646-2-1	97.039	85,410
FEMA--Water Supply Grant	1628-40-18	97.039	125,073
Program Subtotal			210,483
Model Disaster Recovery Plan (passed through City of Oakland)	Not applicable	97.067	24,990
Total Department of Homeland Security			235,473
Department of Commerce			
(Passed through San Francisco Bay Conservation and Development Commission)			
National Oceanic & Atmospheric Administration			
SFEP SubTidal Goals	AB 133F-07-SE-3935	11.419	45,450
CIAP--Bay Trail Construction	SFBC 03-11	11.419	258,492
Total Department of Commerce			303,942
Department of Interior			
(Passed through Department of Boating and Waterways)			
Clean Vessel Act	00-107-744	15.616	234,631
Total Department of Interior			234,631
Total Schedule of Expenditures of Federal Awards			$3,698,467

ASSOCIATION OF BAY AREA GOVERNMENTS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2009

NOTE 1-REPORTING ENTITY

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

NOTE 2-BASIS OF ACCOUNTING

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

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.

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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, 2009, and have issued our report thereon dated October 9, 2009. 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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Association's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Association's financial statements that is more than inconsequential will not be prevented or detected by the Association's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Association's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 9, 2009 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.

Maze + Associates

October 9, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO 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 the compliance of the Association of Bay Area Governments with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Association's major federal programs are identified in Section I - Summary of Auditor's Results included in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Association's compliance with those requirements.

In our opinion, the Association complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section III – Federal Award Findings and Questioned Costs included in the accompanying Schedule of Findings and Questioned Costs.

Internal Control over Compliance

The management of the Association is responsible for establishing and maintaining effective internal controls 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Association's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Association's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an Association's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Association's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Association's internal control. We consider certain deficiencies to be significant deficiencies in internal control over compliance. These are listed as items 2009-01 in Section III – Federal Award Findings and Questioned Costs included in the accompanying Schedule of Findings and Questioned Costs

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Association's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Association as of and for the year ended June 30, 2009, and have issued our report thereon dated October 9, 2009. Our audit was performed for the purpose of forming opinions on the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Association's response and, accordingly, we express no opinion on it.

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.

Maze + Associates

October 9, 2009

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

FOR THE YEAR ENDED
JUNE 30, 2009

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

For the Year Ended June 30, 2009

Table of Contents

	Page
Memorandum on Internal Control	1
Status of Prior Year Significant Deficiencies	2
Status of Prior Year Other Matters	3
Required Communications	7
Financial Statement Audit Assurance	7
Other Information Included with the Audited Financial Statements	7
Accounting Policies	7
Unusual Transactions, Controversial or Emerging Areas	8
Estimates	8
Disagreements with Management	8
Retention Issues	8
Difficulties	8
Audit Adjustments	9
Uncorrected Misstatements	9

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MEMORANDUM ON INTERNAL CONTROL

October 9, 2009

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, 2009, 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 opinion 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

The Association's written responses included in this report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Maze & Associates

ASSOCIATION OF BAY AREA GOVERNMENTS
MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2008-01 – Accounting Oversight & Review

The Association's former Assistant Finance Director left the Association's employment in fiscal 2007-08 and has not yet been replaced. This position was vacant during the period under audit and provides key oversight and controls over the accounting function. The absence of this position raises the potential that a significant error could occur and not be timely detected and corrected by existing staff.

The operations of ABAG and its affiliates are diversified, complex and very unusual which increases the need for a qualified Assistant Finance Director to oversee the accounting staff. Many of the oversight functions have been assumed by the incoming Finance Director on a temporary basis. However, both functions will be needed in the future to ensure that procedures are effective and efficient and controls do not deteriorate.

Current Status:

During FY 07-08, the former Finance Director announced his plan to retire after 25 years of service and the Association started recruiting for a new Finance Director. The recruitment was successful and a qualified and experienced successor took over the Finance Director position on July 2, 2008. The former Assistant Finance Director resigned from the Association in January 2008. Recognizing the increased risk in internal control due to the departure of the Assistant Finance Director, the former Finance Director agreed to stay on to support his successor until the Assistant Finance Director position is filled. During fiscal year 2008-09, the Assistant Finance Director was hired and the former Finance Director retired on June 30, 2009.

ASSOCIATION OF BAY AREA GOVERNMENTS
MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR OTHER MATTERS

2008-02 – Information Technology Best Practices

We conducted an Information Systems Review with our audit which encompassed the financial information system and the network environment that houses it. We significantly expanded our work from previous years beyond looking solely 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 financial systems. 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 may 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

A summary of our results and "best practices" recommendations are as follows:

- *External Scan Results:* We performed an external scan based on PCIE standards (See below) and found exploitable vulnerabilities in the Association's externally facing systems (systems connected directly to the Internet) which may be used to gain control of those systems. Externally facing systems should have the greatest level of security. These vulnerabilities should be mitigated as soon as possible. In addition, the Association should establish a means to monitor the effectiveness of their information systems control procedures, including periodic vulnerability scans. If the vulnerabilities cannot be patched other mitigating controls such as host based firewalls can be used.

- *Internal Scan Results:* Because of these external vulnerabilities, we performed a secondary scan of internal financial systems to determine if there were vulnerabilities to the financial systems. Our internal scan found exploitable vulnerabilities in the Association's financial application server and one randomly selected workstation which potentially could permit unauthorized access to data. These vulnerabilities should be mitigated as soon as possible. In addition, the Association should establish a means to monitor the effectiveness of their information systems control procedures, including periodic vulnerability scans. If the vulnerabilities cannot be patched other mitigating controls such as host based firewalls can be used.

ASSOCIATION OF BAY AREA GOVERNMENTS

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR OTHER MATTERS

- *Payment Card Industry Compliance* - Any organization that processes credit cards is required to comply with the Payment Card Industry Data Security Standard (PCI-DSS), even if the processing is outsourced. The standard was developed to minimize the risk of loss due to security breaches in processing credit card transactions. Merchants which conform to the Standard pay lower transaction fees than those that do not comply and they minimize their liabilities which may result from security breaches. The Standard requires varying levels of controls depending on transaction levels. In general, merchants must:
    1. Fill out a self-assessment questionnaire (SAQ).
    2. Submit the SAQ to acquiring banks.
    3. Perform quarterly external network scans and submit the results to acquiring banks.
    4. Have a full independent PCI audit performed by a Qualified Security Assessor (QSA) and submit it to acquiring banks. (Required for level 1 merchants only).

  We believe the Association qualifies as a Level 3 or 4 merchant due to activity levels of less than 1 million transactions and currently it need only complete and maintain the SAQ in-house. However, we understand SAQ submissions will become mandatory for Level 3 and 4 merchants within the near future. Staff have not completed the SAQ, but should do so and prepare for the submission requirement.

- *General Information Systems Controls* - We compared the Association's information systems controls with the various NIST standards and believe improvements should be considered for implementation such as formalizing business continuity plans including alternate processing site locations, contingency planning and training. We provided a detailed report to the Association Auditor and the Association's Administrative Services staff which describes the relevant standards and the control status for their consideration.

  As noted above, the Association is not required to conform to NIST standards and could use another set of guidelines to ensure the adequacy of controls. However, we recommend the Association select an appropriate industry standard such as NIST to plan, organize and monitor information security proactively.

Current Status:

- *External Scan* The Association recognizes the critical nature of Internet and computer network security. ABAG utilizes a robust and actively maintained firewall. During fiscal year 2008-09, the Association implemented a process to perform external scans twice a year. Staff will continue to review and update this firewall to ensure that the identified vulnerabilities will be minimized. The Association strives for continuous improvements.

- *Internal Scan* During fiscal year 2008-09, staff applied the necessary patches to the financial system and server to mitigate the identified vulnerabilities on the auditors' report.

ASSOCIATION OF BAY AREA GOVERNMENTS

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR OTHER MATTERS

- *Payment Card Industry Compliance* The Association does accept a number of credit cards for payment of its conferences, training seminars and publications. Management believes that these transactions should always comply with the latest security standards. During fiscal year 2008-09, the Association completed a self-assessment questionnaire as recommended by the auditors. Our acquiring bank does not require submission of the SAQ at this point.

- *General Information System Controls* The Association believes in proactively planning for disaster recovery. Several years ago, ABAG adopted a Business Recovery Plan and have been conducting Workplace Emergency Procedures training jointly with the Metropolitan Transportation Commission (MTC). During fiscal year 2008-09, staff implemented a remote data backup system located at the offices of the California State Association of Counties (CSAC) in Sacramento. However, the site is incompatible with our needs. Currently staff are looking for a new site to store the remote data backup system.

2008-03 – <u>Investment Policy Update</u>

The Association's investment policy requires an annual update process that was not completed during fiscal 2007-08. This process should be completed as required or the policy should be changed to remove the annual update requirement.

Current Status:

In response to this recommendation, staff presented and the Executive Board approved at its September 2008 meeting an amendment to the Association's investment policy requiring an update only when a revision to the policy is sought. Investment reports will continue to be presented to the Finance Committee and Executive Board on a bi-monthly basis.

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ASSOCIATION OF BAY AREA GOVERNMENTS

REQUIRED COMMUNICATIONS

October 9, 2009

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, 2009 and have issued our report thereon dated October 9, 2009. 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 2009. As described in notes to the financial statements, during the year, the Association implemented the following new standard:

- Statement No. 45 - *Accounting And Financial Reporting By Employers For Postemployment Benefits Other Than Pensions*

  GASB 45 uses Pension Accounting (GASB 27) to change the accounting for Other Postemployment Benefits (OPEB) to full accrual at the Entity-wide and proprietary funds financial statement levels. Under the concepts in GASB 45, an actuarial study or simplified measurement method calculation is performed to determine an Annual Required Contribution (ARC). So long as employers contribute this amount every year, no accrual adjustment is needed in the financial statements. A summary of the impacts of this statement are presented below.

  As discussed in Note 9 to the financial statements, during the year ended June 30, 2009, the Association paid retiree health care premiums but did not pay additional contributions to prefund these benefits due to current market uncertainties. The Board approved the participation in a separate irrevocable trust established for the sole purpose of pre-funding OPEB. This Trust is governed by a separate board, which is not appointed or controlled by the Board or management and it has therefore been excluded from the Association's financial statements. There was no cumulative effect of the accounting change as of the beginning of the year.

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 2009.

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 $1.6 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.

ASSOCIATION OF BAY AREA GOVERNMENTS

REQUIRED COMMUNICATIONS

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 entity'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.

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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.

Maze & Associates

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