

San Francisco Bay Restoration Authority

**Financial Statements
For the Year Ended June 30, 2018**

San Francisco Bay Restoration Authority

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Independent Auditor's Report

To the Governing Board of the San Francisco
Bay Restoration Authority
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the San Francisco Bay Restoration Authority (SFBRA) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the SFBRA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the SFBRA, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, schedule of revenue, expenses, and changes in fund balances – budget and actual – SFBRA – project, and schedule of revenues, expenses, and changes in fund balances – budget and actual – SFBRA – operating, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SFBRA’s basic financial statements. The schedule of approved projects is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of approved projects is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of approved projects is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the SFBRA’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SFBRA’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SFBRA’s internal control over financial reporting and compliance.



Walnut Creek, California
December 14, 2018

San Francisco Bay Restoration Authority
Financial Statements for the Year Ended June 30, 2018
Management's Discussion and Analysis (unaudited)

Management's Discussion and Analysis

This section presents an overview of the financial activities of the San Francisco Bay Restoration Authority (SFBRA) for the year ended June 30, 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes which follow.

A. Financial Highlights

SFBRA is a regional agency created to fund shoreline projects that will protect, restore, and enhance San Francisco Bay through the allocation of funds raised by the Measure AA parcel tax. The annual tax levies commenced on July 1, 2017 with an ending date of June 30, 2037. The majority of the activities in fiscal year 2018 were collecting the special tax assessment revenue and awarding grants. The following are some of the highlights from fiscal year 2018.

- Collected Measure AA special tax revenue total of \$25,313,504
- Awarded the first round of grants funded by Measure AA tax revenue, and authorized eight projects to be funded by the grants with total of \$18 million.
- Developed and released the Request for Proposals (RFP) for the second round of grants funded by Measure AA tax revenue.

B. Overview of the Government-Wide Financial Statements

The government-wide financial statements provide an overview of SFBRA. The government-wide financial statements comprise a Statement of Net Position, a Statement of Activities and accompanying notes. The Statement of Net Position presents financial information on the government-wide net position of SFBRA at the end of the 2018 fiscal year. The difference between the assets plus deferred outflows and liabilities plus deferred inflows is reported as "Net Position."

The Statement of Activities presents government-wide information showing the change in net position resulting from revenues earned and expenses incurred during the 2018 fiscal year. All changes in net position are recorded as revenues are earned and expenses are incurred, regardless of the timing of related cash flows.

C. Overview of the Fund Financial Statements

SFBRA is composed of one governmental fund which is presented as a general fund that used to account for SFBRA activities and is supported by Measure AA special tax revenue sources.

Governmental fund financial statements provide additional information not provided in the government-wide statements in that they focus on the annual inflows and outflows of resources as well as on the balance of resources available to be spent at fiscal year-end rather than the longer term focus of governmental activities as seen in the government-wide financial statements. The governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate this comparison of governmental funds to governmental activities. The financial statements of the governmental fund are prepared under the modified accrual basis of accounting.

San Francisco Bay Restoration Authority
Financial Statements for the Year Ended June 30, 2018
Management's Discussion and Analysis (unaudited)

D. Government-Wide Financial Analysis

Statement of Net Position

The following table shows a summary of SFBRA's government-wide Statement of Net position as of June 30 for the last two fiscal years:

	Governmental Activities	
	2018	2017
ASSETS		
Cash	\$ 23,842,146	\$ 48,499
Receivable	198,440	324,511
Prepaid items	143	-
Total Assets	24,040,729	373,010
LIABILITIES		
Current liabilities:		
Accounts payable & accrued liabilities	23,513	370,870
Due to other governments	106,326	225,711
Non-current liabilities:		
Advance from other government	1,108,262	1,108,262
Total Liabilities	1,238,101	1,704,843
NET POSITION		
Unrestricted	22,802,628	(1,331,833)
Total Net Position	\$ 22,802,628	\$ (1,331,833)

Total cash and investments increased by \$23,793,647 from fiscal year 2017 to fiscal year 2018. The increase in cash and investments was mainly due to the collection of Measure AA special tax revenue.

Accounts payable and accrued liabilities decreased by \$347,357 from fiscal year 2017 to fiscal year 2018. The decrease was mainly as a result of prior year vendors' invoices for the ballot costs paid in fiscal year 2018.

There was no change in long-term liabilities from fiscal year 2017 to fiscal year 2018. However, the amount of \$369,421 in advance from other governments is scheduled to repay in December 31, 2018. Refer to Note 5 for further information

SFBRA has net position of \$22,802,628 for fiscal year 2018. Net position increased by \$24,134,461 from fiscal year 2017 to fiscal year 2018. The increase was mainly from the result of collection of Measure AA special tax revenue.

San Francisco Bay Restoration Authority
Financial Statements for the Year Ended June 30, 2018
Management's Discussion and Analysis (unaudited)

Statement of Activities

The following table shows a summary of SFBRA's government-wide Statement of Activities for fiscal year 2018 and 2017:

	Governmental Activities	
	2018	2017
Revenues:		
General Revenue:		
Measure AA special tax	\$ 25,313,504	\$ -
Investment earnings	37,608	40
Miscellaneous	12,942	-
Total Revenues	25,364,054	40
Expenses:		
General Government	471,885	1,333,974
Restoration /Preservation	757,708	-
Total Expenses	1,229,593	1,333,974
Change in Net Position	24,134,461	(1,333,934)
Net Position - Beginning	(1,331,833)	2,101
Net Position - Ending	\$ 22,802,628	\$ (1,331,833)

Total general revenue increased by \$25,364,014 from fiscal year 2017 to fiscal year 2018. The increases were primarily due to the collections of Measure AA special tax levies which commenced on July 1, 2017.

SFBRA's administrative operation activities are included in general government activities. Total expenses in general government decreased by \$862,089 from fiscal year 2017 to fiscal year 2018. The decrease was mainly due to the ballot costs of \$1,108,262 in fiscal year 2017.

SFBRA's project activities pertain to restoration and preservation of San Francisco Bay Wetland. There was no project activity in fiscal year 2017 and 2018. Restoration/preservation of SF Bay costs of \$757,708 in fiscal year 2018 included counties' tax collection fees of \$700,768 and special tax assessment consultant's fees of \$56,940.

Changes in net position increased by 25,468,395 from fiscal year 2017 to fiscal year 2018. The increase was primarily due to the Measure AA tax revenue collections commenced in fiscal year 2018.

**San Francisco Bay Restoration Authority
 Financial Statements for the Year Ended June 30, 2018
 Management’s Discussion and Analysis (unaudited)**

E. Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

F. General Fund Budget

SFBRA adopted a budget in the beginning of fiscal year 2018 and amended the budget in December 2017 when SFBRA started to collect Measure AA tax revenue.

The SFBRA general fund budget for fiscal year 2018 was amended from the adopted budget by \$25,159,460 in increased revenues and \$22,317,978 in increased expenditures. The actual revenues-to-expenditures balance for fiscal year 2018 reflects a surplus of \$24,134,461. The expenditure variance of \$21,644,084 was mainly due to the timing of awarded grants of \$17,901,400 for which the projects had not started as of fiscal year end. The following provides a condensed view of the final budgeted results compared to actual results for the year ended June 30, 2018.

	<u>General Fund</u>			
	Adopted Budget	Final Budget	Actual	Variance
Revenue	\$ 555,700	\$ 25,715,160	\$ 25,364,054	\$ (351,106)
Expenditures	555,700	22,873,678	1,229,593	21,644,085
Net change in fund balance	-	2,841,482	24,134,461	21,292,979
Fund balance - beginning, as restated	(223,571)	(223,571)	(223,571)	-
Fund balance - ending	\$ (223,571)	\$ 2,617,911	\$ 23,910,890	\$ 21,292,979

G. Economic Factors

The Bay Area economy continues to expand. The unemployment rate continues to decrease to all-time lows and sales taxes continue to increase. The residential building permits continue to rise. These positive economic factors indicate a potential increase to the parcel tax revenues.

Requests for information

This financial report is designed to provide a general overview of the San Francisco Bay Restoration Authority’s financial position for all those with an interest in the government’s finance. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Metropolitan Transportation Commission (MTC) Finance Department, at 375 Beale Street, Suite 800, San Francisco, California 94105.

San Francisco Bay Restoration Authority
Statement of Net Position
June 30, 2018

	<u>Governmental</u> <u>Activities</u>
ASSETS	
Current assets:	
Cash	\$ 11,864,624
Investments	11,977,522
Receivables - Measure AA special tax	141,080
Interest receivable	57,360
Prepaid items	143
	<hr/>
TOTAL ASSETS	24,040,729
	<hr/>
LIABILITIES	
Current liabilities:	
Accounts payable & accrued liabilities	23,513
Due to other governments	106,326
Non-current liabilities:	
Advance from other governments	
Due within one year	369,421
Due in more than one year	738,841
	<hr/>
TOTAL LIABILITIES	1,238,101
	<hr/>
NET POSITION	
Unrestricted	22,802,628
	<hr/>
TOTAL NET POSITION	\$ 22,802,628
	<hr/> <hr/>

See accompanying notes to basic financial statements

San Francisco Bay Restoration Authority
Statement of Activities
For the Year Ended June 30, 2018

	Expenses	Program Revenues			Total Program Revenue	Net (Expenses) Revenues and Change in Net Position
		Charges for Services	Operating Grants and contributions	Capital Grants and Contributions		Governmental Activities
						Total
Functions:						
Governmental Activities:						
General Government	\$ 471,885	\$ -	\$ -	\$ -	\$ -	\$ (471,885)
Restoration / Preservation	<u>757,708</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(757,708)</u>
Total Governmental Activities	<u>\$ 1,229,593</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,229,593)</u>
General Revenue:						
Measure AA special tax						\$ 25,313,504
Investment earnings						37,608
Miscellaneous						<u>12,942</u>
Total General Revenue						<u>25,364,054</u>
Change in Net Position						24,134,461
Net Position - Beginning						<u>(1,331,833)</u>
Net Position - Ending						<u>\$ 22,802,628</u>

See accompanying notes to basic financial statements

San Francisco Bay Restoration Authority
Balance Sheet
June 30, 2018

ASSETS

Cash	\$	11,864,624
Investments		11,977,522
Receivables - Measure AA special tax		141,080
Interest receivable		57,360
Prepaid items		143
TOTAL ASSETS	\$	<u>24,040,729</u>

LIABILITIES

Accounts payable & accrued liabilities	\$	23,513
Due to other governments		106,326
TOTAL LIABILITIES		<u>129,839</u>

FUND BALANCE

Nonspendable:		
Prepaid items		143
Unassigned		23,910,747
TOTAL FUND BALANCE		<u>23,910,890</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u>24,040,729</u>

See accompanying notes to basic financial statements

San Francisco Bay Restoration Authority
Reconciliation of the Balance Sheet – Governmental Fund
to the Statement of Net Position
June 30, 2018

Fund Balance to Governmental Fund \$ 23,910,890

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

Advance from other governments are reported as non-current liabilities, therefore amount are not reported in the fund (1,108,262)

Net position of Governmental Activities \$ 22,802,628

See accompanying notes to financial statements

San Francisco Bay Restoration Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

REVENUES	
Measure AA special tax	\$ 25,313,504
Investment income	37,608
Miscellaneous	<u>12,942</u>
TOTAL REVENUES	<u>25,364,054</u>
EXPENDITURES	
Salaries and benefits	285,243
Professional fees	75,050
County fees	700,768
Overhead	141,718
Other	<u>26,814</u>
TOTAL EXPENDITURES	<u>1,229,593</u>
NET CHANGE IN FUND BALANCE	24,134,461
Fund balance - beginning, as restated (note 1.F)	<u>(223,571)</u>
Fund balance - ending	<u>\$ 23,910,890</u>

See accompanying notes to basic financial statements

San Francisco Bay Restoration Authority
Reconciliation of the Statement of Revenues, Expenses and Changes
in Fund Balance – Governmental Fund to the Statement of Activities
For the Year Ended June 30, 2018

Net Change in Fund balance - Total Governmental Funds (per Statement of Revenues, Expenditures and Changes in Fund Balance)	\$ 24,134,461
No reconciling items between the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities	-
Change in Net Position of Governmental Activities	<u>\$ 24,134,461</u>

See accompanying notes to financial statements

San Francisco Bay Restoration Authority
Financial Statements for the Year Ended June 30, 2018
Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity and Operations

The San Francisco Bay Restoration Authority (SFBRA) was established on September 30, 2008 by the San Francisco Bay Restoration Authority Act, Government Code section 66700 et seq. SFBRA is a regional entity and its purpose is to raise and allocate local resources for restoration, enhancement, protection, and enjoyment of wetlands and wildlife habitats in the San Francisco Bay and along its shoreline.

SFBRA is governed by a board that was formed based on the California Government Code Section 66703(a) which defined the composition of SFBRA's seven voting members. The Association of Bay Area Governments (ABAG) appoints SFBRA's members of the board, ABAG has no ability to remove the appointed members of the board. The composition of SFBRA's board members are different from ABAG's board. For the above reasons, SFBRA is not considered as a component unit of ABAG.

On January 13, 2016, SFBRA's Board unanimously voted to place a funding measure (Measure AA) on the June 7, 2016 ballot in the nine-county Bay Area to generate funds to protect and restore San Francisco Bay. Measure AA was approved by the voters with a 70% affirmative vote. The annual tax levies commenced on July 1, 2017 with an ending date of June 30, 2037.

On October 24, 2016 SCC, ABAG and SFBRA entered into a joint powers agreement that provides for SCC and ABAG to perform staff functions for SFBRA ("JPA"). Subsequent to the execution of the JPA, on May 30, 2017 ABAG and Metropolitan Transportation Commission (MTC) entered into the Contract for Services under which MTC assumed staff functions for ABAG, commencing July 1, 2017. In November 2017, ABAG, SCC and SFBRA amended the JPA to acknowledge that MTC will fulfill the staffing responsibilities assigned to ABAG in the JPA.

B. Basis of Presentation

SFBRA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental 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 Financial Statements

The Statement of Net Position and the Statement of Activities display the overall financial activities of SFBRA. The Statement of Net Position reports the difference between SFBRA's total assets and total liabilities.

The Statement of Activities reports increases and decreases in SFBRA's net position. It is also prepared on the full accrual basis, which means it includes all of SFBRA's revenues and expenses, regardless of when cash changes hands.

San Francisco Bay Restoration Authority
Financial Statements for the Year Ended June 30, 2018
Notes to the Financial Statements

Fund Financial Statements

SFBRA presents a governmental fund, which consists of operating/administration and project funds. Each fund is a separate set of self-balancing accounts that comprise assets, liabilities, net position, revenues and expenses. The operating/administration fund represents five percent of measure AA tax revenue, which may be used for general government purposes. The project fund reports the activities of the restoration and preservation of San Francisco Bay Wetland. Both funds are combined into a single column in the fund financial statements. The Fund Financial Statements report increases and decreases in SFBRA's fund balance.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Under the full accrual basis of accounting method, revenues are recognized when earned, rather than when cash changes hands, and expenses are recorded when the liability is incurred.

Fund Financial Statements

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting method, revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay for liabilities of the current period. SFBRA considers revenues to be available if they are collected within 60 after year end. Expenditures generally are recorded when liabilities are incurred, as under the accrual basis of accounting.

New Accounting Pronouncement

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for other post-employment benefits (OPEB). This standard establishes new accounting and financial reporting requirements for governmental entities whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This standard was issued in June 2015 and is effective for reporting periods beginning after June 15, 2017. This standard did not have any impact on SFBRA's financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. This standard did not have any impact on SFBRA's financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses requirements regarding the retirement of certain tangible assets for all state and local governments. The requirements of this statement

San Francisco Bay Restoration Authority

Financial Statements for the Year Ended June 30, 2018

Notes to the Financial Statements

are effective for reporting periods beginning after June 15, 2018. Management is currently evaluating the effect of this standard on SFBRA's financial statements.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the effect of this standard on SFBRA's financial statements.

GASB Statement No. 85, *Omnibus 2017*, addresses various practice issues including related blending component units, goodwill, fair value measurement and application, and postemployment benefits (OPEB). The requirements of this statement are effective for reporting periods beginning after June 15, 2017. This standard did not have any impact on SFBRA's financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. This standard did not have any impact on SFBRA's financial statements.

GASB Statement No. 87, *Leases*, better meets the information needs of financial statement users by improving accounting and financial reporting, enhancing the comparability of financial statements between governments, and also enhancing the relevance, reliability, and consistency of information about the leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect of this standard on SFBRA's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, provides additional essential information related to the debt disclosure in notes to financial statements. This statement clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Management is currently evaluating the effect of this standard on SFBRA's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect of this standard on SFBRA's financial statements.

D. Net Position

The government-wide financial statements utilize a net position presentation. Net Position is the excess of an entity's assets and deferred outflows of resources over its liabilities and deferred inflows of resources and is categorized as follows:

- Net Investment in Capital Assets groups all capital assets into one component of net position. Accumulated depreciation and any outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

San Francisco Bay Restoration Authority
Financial Statements for the Year Ended June 30, 2018
Notes to the Financial Statements

- Restricted Net Position reflects net position that is subject to constraints either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position represents net position of SFBRA that is not restricted for any project or purpose.

Sometimes the SFBRA will fund outlays for a particular purpose from both restricted and unrestricted resources. To determine the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The SFBRA considers restricted net position to have been depleted before unrestricted net position is applied.

E. Fund Balance

Fund balance of governmental funds is reported in the following categories based on the nature of limitations confining the use of resources for specific purposes:

- Nonspendable Fund Balance – includes amounts that are (1) not in spendable form, or (2) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as inventories, prepaid amounts, and long-term interfund advances and receivables.
- Restricted Fund Balance – includes amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed Fund Balance – represents amounts that can only be used for specific purposes through resolutions authorized by SFBRA’s Board of Directors. Commitments can only be modified or lifted through Board resolutions.
- Assigned Fund Balance – comprises of amounts intended to be used by SFBRA for specific purposes that are neither restricted nor committed.
- Unassigned Fund Balance – is the residual classification for the General Fund and includes all amounts not contained in other classifications.

Sometimes SFBRA will fund outlays for a particular purpose from both restricted and unrestricted resources (committed, assigned, and unassigned fund balances). To determine the amounts to report as restricted, committed, assigned, and unassigned fund balances in the fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. SFBRA fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

F. Change in Accounting

Prior to July 1, 2017, SFBRA was classified as an enterprise fund. In June 2016, the nine-county of San Francisco Bay voters passed the San Francisco Bay Clean Water, Pollution Prevention and Habitat Restoration Measure (Measure AA) placed by the SFBRA. Commencing on July 1, 2017, Measure AA imposed a special parcel tax to fund shoreline projects that will protect and restore the Bay. Under GASB guidance, Measure AA revenue falls under the definition of governmental fund. Therefore, starting with fiscal year 2018, SFBRA is reclassified as a governmental fund.

San Francisco Bay Restoration Authority
Financial Statements for the Year Ended June 30, 2018
Notes to the Financial Statements

The impact of changing the fund type on the fund balance at July 1, 2017 is summarized as follows:

	<u>SFBRA</u>
Fund balance at July 1, 2017, as previously reported	\$ (1,331,833)
Fund reclassification	<u>1,108,262</u>
Fund balance at July 1, 2017, as restated	<u>\$ (223,571)</u>

G. Cash and Investments

SFBRA has assigned its management of cash and investments to MTC under the contract for services and adopted MTC’s investment policy. Accordingly MTC, on behalf of SFBRA, invests its available cash under the prudent investor rule. The prudent investor rule states, in essence, that “in investing ... property for the benefit of another, a trustee shall exercise the judgment and care, under the circumstance then prevailing, which people of prudence, discretion, and intelligence exercise in the management of their own affairs.” This policy affords SFBRA a broad spectrum of investment opportunities as long as the investment is deemed prudent and is authorized under the California Government Code Sections 53600, et seq.

Investments allowed under MTC’s investment policy adopted by SFBRA include the following:

- Securities of the U.S. Government or its agencies
- Securities of the State of California or its agencies
- Certificates of deposit issued by a nationally or state chartered bank
- Authorized pooled investment programs
- Commercial paper – Rated “A1” or “P1”
- Corporate notes – Rated “A” or better
- Municipal bonds
- Mutual funds – Rated “AAA”
- Other investment types authorized by state law and not prohibited in MTC’s investment policy.

SFBRA applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended (including by GASB Statement No. 72, *Fair Value Measurement and Application*), which generally requires investments to be recorded at fair value with the difference between cost and fair value recorded as an unrealized gain or loss. Investments are stated at fair value based upon quoted market prices. SFBRA reports its money market and short term investments at amortized cost. This is permissible under this standard provided those investments have a remaining maturity at the time of purchase of one year or less and that the fair value of those investments are not significantly affected by the credit standing of the issuer or other factors. Net increases or decreases in the fair value of investments are shown in the Statement of Revenues, Expenses and Changes in Net Position.

San Francisco Bay Restoration Authority
Financial Statements for the Year Ended June 30, 2018
Notes to the Financial Statements

SFBRA considers all balances in demand deposit accounts and money market mutual fund to be cash, and classifies all other highly liquid cash equivalents as short-term investments. Highly liquid cash equivalents are short-term investment that meet the following definitions:

- Readily convertible to known amounts of cash.
- So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

H. Prepaid Items

Certain payments to vendors applicable to future accounting periods are recorded as prepaid items based on the consumption method.

I. Revenue Recognition

Revenue will primarily be comprised of special assessments from Measure AA secured through property taxes, which are considered available and recognized as revenues under the modified accrual basis of accounting method if their receipt occurs within 60 days after year-end.

2. NET POSITION

SFBRA has a positive net position of \$22,813,308. The positive position is mainly the result of the collection of special assessments from Measure AA.

3. CASH AND INVESTMENTS

A. A summary of Cash and Investments as shown on the Statement of Net Position at June 30, 2018 is as follows:

Cash	\$	11,864,624
Investments		<u>11,977,522</u>
 Total Cash and Investments		 <u><u>\$ 23,842,146</u></u>

B. The composition of cash and investments at June 30, 2018 is as follows:

Cash

Cash at banks	\$	<u>11,864,624</u>
 Total Cash		 <u><u>\$ 11,864,624</u></u>

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Investments

GASB Statement No. 72 sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are not active;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value at June 30, 2018:

Local Agency Investment Fund: The position in the California State Local Agency Investment Fund is determined by the fair value of the pool's underlying portfolio.

The following table set forth by level, within the fair value hierarchy, SFBRA's investments at fair value.

Investments by fair value level at June 30, 2018	Level 1	Level 2	Level 3	Total
Government Pool Investments:				
Local Agency Investment Fund*	\$ -	\$ 11,977,522	\$ -	\$ 11,977,522
Total investments measured at fair value	<u>\$ -</u>	<u>\$ 11,977,522</u>	<u>\$ -</u>	<u>\$ 11,977,522</u>

The Local Agency Investment Fund (LAIF) is a program created by state statute as an investment alternative for California's local governments and special districts. LAIF funds are available for immediate withdrawal. The SFBRA's investment pool is invested LAIF, which is part of the State of California's Pooled Money Investment Account (PMIA). As of June 30, 2018, the PMIA balance was \$88.8 billion, of which 1.89% is in structured notes and medium-term asset backed securities, and 0.78% in short-term asset-backed commercial paper. The total amount invested by all public agencies in LAIF was \$22.5 billion,

San Francisco Bay Restoration Authority
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Notes to the Financial Statements

while the SFBRA's investment was \$12.0 million. The value of the pool shares in LAIF is determined on an amortized cost basis, which approximates fair value. The PMIA is not SEC-registered, but is required to invest according to the California Government Code. The average maturity of the PMIA investments was 193 days as of June 30, 2018. The Local Investment Advisory Board, which consisted of five members designated by State statutes, has oversight responsibility for LAIF.

C. Deposit and Investment Risk Factors

There are many factors that can affect the value of deposits and investments such as credit risk, custodial credit risk, concentration of credit risk, and interest rate risk. SFBRA manages investment risks in accordance with MTC investment policy. More information about MTC's investment policy can be obtained from MTC CAFR at <https://mtc.ca.gov/tools-and-resources/digital-library/mtc-comprehensive-annual-financial-report-fy2017-18>

i.) Credit Risk

Generally, credit risk is the risk that an issuer of an investment fails to fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF is unrated.

ii.) Custodial Credit Risk

Custodial credit risk is the risk that securities held by the custodian and in the custodian's name may be lost and not be recovered.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, SFBRA may not be able to recover its deposits that are in the possession of an outside party. All checking accounts are insured by the Federal Depository Insurance Corporation (FDIC) up to the limit of \$250,000. Of the SFBRA's total deposit balances of \$11,864,624 at June 30, 2018, \$250,000 is FDIC insured with the remaining \$11,614,624 collateralized by Union Bank by pledging identifiable U.S. Government securities at 110% or more.

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities to be posted as collateral with its agent with the securities having a fair value of 110% to 150% of SFBRA's cash on deposit.

iii.) Concentration of Credit Risk

Concentration of credit risk is the risk associated with lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory or credit developments. LAIF is the only investment made by SFBRA and LAIF consists of a pool of investment securities.

iv.) Interest Rate Risk

Interest rate risk is the potential adverse effect resulting from changes in market interest rates on the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The weighted average maturity of the investments in the LAIF investment pool at June 30, 2018 is 0.53 years.

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Financial Statements for the Year Ended June 30, 2018
Notes to the Financial Statements

4. DUE TO OTHER GOVERNMENTS

Due to other governments includes the amount due to SCC and MTC for staff services in fiscal year 2018. A schedule of due to other governments is as follows:

Agency	Amount	Notes
Metropolitan Transportation Commission	\$ 6,970	June 2018 Services
State Coastal Conservancy	99,356	April to June 2018 Services
Total as of 6/30/18	\$ 106,326	

5. ADVANCE FROM OTHER GOVERNMENTS

Advance from other governments includes the amount due to the three agencies that advanced funds to SFBRA for placing a Measure AA revenue on the June 2016 ballot. The advances were authorized by separate memorandums of agreement signed in March and April 2016. The advances do not accrue interest, and repayments are to be made from revenue generated by Measure AA revenue. A schedule of advance from other governments is as follows:

Agency	Due within one year	Due in more than one year	Total	Notes
Santa Clara Valley Water District	\$ 277,065	\$ 554,131	\$ 831,196	Advanced fund for ballot costs. Three equal installment repayments due December 31, 2018, 2019 and 2020
Sonoma County Water Agency	46,178	92,355	138,533	Advanced fund for ballot costs. Schedule of repayments to be mutually agreed upon
East Bay Regional Park District	46,178	92,355	138,533	Advanced fund for ballot costs. Three equal installment payments due December 31, 2018, 2019 and 2020
Total as of 6/30/2018	\$ 369,421	\$ 738,841	\$ 1,108,262	

San Francisco Bay Restoration Authority
Financial Statements for the Year Ended June 30, 2018
Notes to the Financial Statements

6. PROPERTY TAX REVENUES

Assessed values are determined annually by each respective County. SFBRA property tax revenues for the fiscal year ended June 30, 2018 are noted as follows for each County:

<u>County</u>	<u>Fiscal Year Ending</u> <u>6/30/2018</u>
Alameda	\$ 5,107,331
Contra Costa	4,258,794
Marin	1,086,195
Napa	561,306
San Francisco	2,360,017
San Mateo	2,572,908
Santa Clara	5,700,024
Solano	1,629,913
Sonoma	2,037,016
Total Property Tax Revenues	\$ 25,313,504

7. RISK MANAGEMENT

SFBRA is exposed to various risks of losses related to potential lawsuits or claims. SFBRA has commercial insurance coverages, which include general liability, crime, cyber, employed attorney, public officials, and automobile liability policies. SFBRA management is of the opinion that no lawsuits or claims will have a material adverse effect on the SFBRA's financial position.

8. RELATED PARTY TRANSACTIONS

On October 24, 2016, the State Coastal Conservancy (SCC), the Association of Bay Area Governments (ABAG) and the San Francisco Bay Restoration Authority (SFBRA) entered into a joint powers agreement that provides for SCC and ABAG to perform staff functions for SFBRA ("JPA"). Subsequent to the execution of the JPA, on May 30, 2017 ABAG and MTC entered into the Contract for Services under which MTC assumed staff functions for ABAG, commencing July 1, 2017. Pursuant to the Contract for Services, MTC is fulfilling the staff obligations assigned to ABAG as set forth in the JPA amended on November 3, 2017. The primarily staff functions that SCC provides to SFBRA include Executive Officer, Clerk of the Board, legal, and program services. The primarily staff functions that MTC provides to SFBRA include Fiscal Agent/Treasurer and program services. SFBRA paid \$316,488 and \$113,542 to SCC and MTC, respectively, for the services provided during fiscal year 2018.

9. SUBSEQUENT EVENTS

SFBRA has evaluated subsequent events for the period from June 30, 2018 through December 14, 2018, the date the financial statements were available to be issued, and no subsequent events have been identified.

REQUIRED SUPPLEMENTARY INFORMATION

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San Francisco Bay Restoration Authority
Schedule of Revenues, Expenses, and Changes in Fund Balances – Budget and Actual
SFBRA – Project (unaudited)
For the Year Ended June 30, 2018

	Original Budget ⁽¹⁾	Final Budget ⁽¹⁾	Actual	Variance from Final Budget
Revenues				
Measure AA special tax	\$ -	\$ 25,715,160	\$ 25,313,504	\$ (401,656)
Total Revenues	<u>-</u>	<u>25,715,160</u>	<u>25,313,504</u>	<u>(401,656)</u>
Expenditures				
Allocation to other agencies	-	21,565,810	-	21,565,810
Professional fees	-	-	56,940	(56,940)
County fees	-	752,168	700,768	51,400
Total Expenditures	<u>-</u>	<u>22,317,978</u>	<u>757,708</u>	<u>21,560,270</u>
Revenues Over (Under) Expenditures	-	3,397,182	24,555,796	21,158,614
Other Financing Sources (Uses)				
Transfer out to Operating Fund	-	(1,285,758)	(1,265,675)	20,083
Net Change in Fund Balances	-	2,111,424	23,290,121	21,178,697
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 2,111,424</u>	<u>\$ 23,290,121</u>	<u>\$ 21,178,697</u>

⁽¹⁾ Budget Prepared in accordance with GAAP

San Francisco Bay Restoration Authority
Schedule of Revenues, Expenses, and Changes in Fund Balances – Budget and Actual
SFBRA – Operating (unaudited)
For the Year Ended June 30, 2018

	Original Budget ⁽¹⁾	Final Budget ⁽¹⁾	Actual	Variance from Final Budget
Revenues				
Investment income	\$ -	\$ -	\$ 37,608	\$ 37,608
Other	555,700	-	12,942	12,942
Total Revenues	555,700	-	50,550	50,550
Expenditures				
Salaries & benefits	291,464	291,945	285,243	6,702
Professional fees	92,200	92,200	18,110	74,090
Overhead	144,836	145,055	141,718	3,337
Other	27,200	26,500	26,814	(314)
Total Expenditures	555,700	555,700	471,885	83,815
Revenues Over (Under) Expenditures	-	(555,700)	(421,335)	134,365
Other Financing Sources (Uses)				
Transfer in from Project Fund	-	1,285,758	1,265,675	(20,083)
Net Change in Fund Balances	-	730,058	844,340	114,282
Fund balances - beginning, as restated	(223,571)	(223,571)	(223,571)	-
Fund balances - ending	\$ (223,571)	\$ 506,487	\$ 620,769	\$ 114,282

⁽¹⁾ Budget Prepared in accordance with GAAP

OTHER SUPPLEMENTARY INFORMATION

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San Francisco Bay Restoration Authority
Schedule of Approved Projects
For the Year Ended June 30, 2018

Project	Grant Amount	Cumulative Expenses through 6/30/2018	Remaining Grant Balance
South Bay Salt Ponds Restoration Project, Phase 2	\$ 7,421,730	\$ -	\$ 7,421,730
South San Francisco Bay Shoreline Project for Economic Impact Area 11	4,439,406	-	4,439,406
Restoring wetland-upland transition zone habitat in the North Bay with STRAW	2,661,264	-	2,661,264
Montezuma Tidal and Seasonal Wetlands Restoration Project — Phase I Tidal Wetlands Area	1,610,000	-	1,610,000
Deer Island Basin Phase I Tidal Wetlands Restoration Project	630,000	-	630,000
San Leandro Treatment Wetland for Pollution Reduction, Habitat Enhancement and Shoreline Resiliency	539,000	-	539,000
Encinal Dune Restoration and Public Access	450,000	-	450,000
Restoration Strategy for Lower Sonoma Creek	150,000	-	150,000
Grant Total	\$ 17,901,400	\$ -	\$ 17,901,400

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Governing Board of the San Francisco
Bay Restoration Authority
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the San Francisco Bay Restoration Authority (SFBRA), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the SFBRA's basic financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California
December 14, 2018