



SAN FRANCISCO BAY

RESTORATION AUTHORITY

Annual Report

2017- 2018

Message from the Executive Director



Fiscal Year 2017-2018 was a year of “firsts” for the San Francisco Bay Restoration Authority. The first request for proposals was issued and the first round of grants was awarded, marking the first allocation of Measure AA funding for Bay restoration. It has been an exhilarating time at the Authority, and we are now truly delivering on the promise we made to Bay Area voters.

With a funding stream secured and our administrative house in order, this year we focused on successfully launching the Authority’s Grant Program. In September of 2017, we issued our first request for proposals, with an updated and comprehensive set of guidelines to help applicants navigate the process.

The Authority’s first grant round netted 22 proposals, totaling \$47 million in requested funding to support planning, design, permitting, construction and monitoring of restoration projects in nearly every Bay county.

A team of restoration experts drawn from the Authority’s Advisory Committee and staff scored each application on its implementation of the programs and activities of Measure AA as well as its alignment with Measure AA’s priorities, including achieving long-term impact, economic benefits, engagement with youth and young adults, and providing tangible benefits to economically disadvantaged communities. Projects were also judged on their likelihood of success. Nine of the project proposals were recommended for funding, representing seven Bay Area counties and a broad range of restoration approaches. In April 2018, eight of these projects were awarded funding; the ninth project, the 900 Innes Remediation Project, was considered in Fiscal Year 18/19 due to its CEQA timing.

An additional project was developed by Authority staff and brought to the Board in June. Authority staff and partners have long recognized that the current regulatory process is one of the most significant hurdles to accelerating the pace and scale of wetlands restoration. They recommended that the Board authorize funding for the Bay Restoration Regulatory Integration Team (BRRIT), an innovative solution to expedite permitting by dedicating representatives from each regulatory agency to review restoration project information as a team and process permit applications collaboratively.

Each of these projects will contribute to the collective restoration of the Bay in different ways. While projects vary in scope and size from less than an acre to 3,000 acres, all fulfil Measure AA’s objectives of habitat restoration and water quality improvements, most provide flood protection or public access, or both, and six benefit economically disadvantaged communities.

Some large projects, like the South Bay Salt Ponds and Montezuma Wetlands, build on years of experience. Smaller projects, such as the San Leandro Treatment Wetland and Encinal Dunes, experiment with creative new techniques to combine habitat restoration with wastewater treatment and beach stabilization. And the BRRIT introduces a much-needed improvement to project permitting for all restoration practitioners in the Bay.

Two years ago, Bay Area voters opted to tax themselves to increase the health and resilience of their bay, and time has proven the wisdom of that choice. Measure AA funding is flowing and attracting matching funds to support this work, and we look forward to keeping this momentum up in 2019!

- Sam Schuchat

FY 2017/2018 in numbers:

Number of project proposals received: 22

Number of projects selected for funding: 9

Bay Area counties with projects receiving funding: 7

Total funding committed: \$22 million

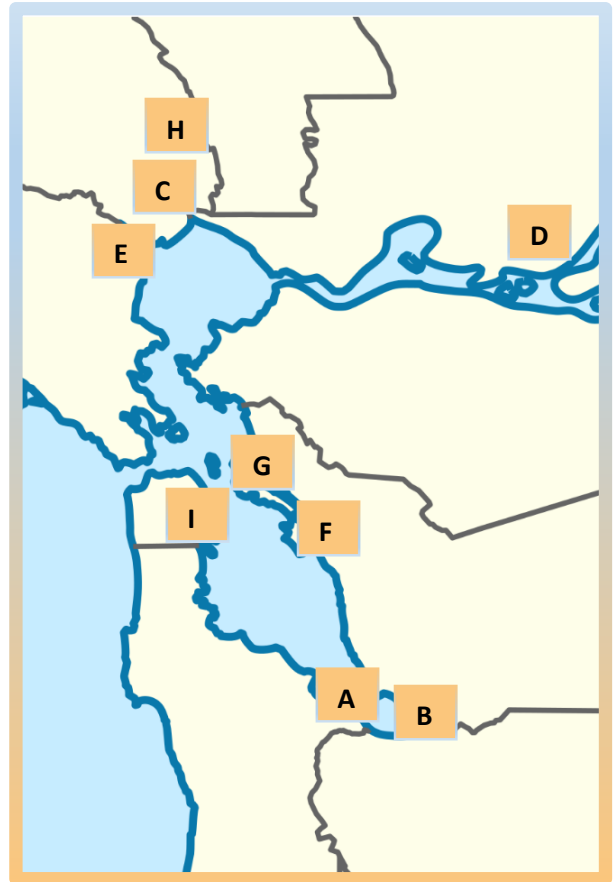


Projects Funded in the first Round of Grants

A. South Bay Salt Ponds Restoration Project, Phase 2
Grantee: Ducks Unlimited, Inc. (DU) & California Wildlife Foundation (CWF)
\$7,421,730

Measure AA funding will enable the completion of Phase 2 of the South Bay Salt Pond Restoration Project in the Ravenswood and Alviso Ponds, and launch the next phase of the project's adaptive management science program. One of the largest wetland restoration projects in the United States, the South Bay Salt Pond Restoration Project is a multi-agency effort to restore 15,100 acres of former salt evaporation ponds in South San Francisco Bay in phases over a 50-year period. This phase will involve breaching levees, installing ditch blocks, dredging pilot channels and constructing acres of upland transition zones to restore tidal action and create habitat along these shorelines.

FY 18/19 Update: California Wildlife Foundation is currently in the process of using this funding to hire consultants to advance the project's research and monitoring efforts. CWF is also finalizing contracts for monitoring change to marsh and mudflat habitat as well the abundance and distribution of nesting terns and shorebirds in the South Bay. DU has nearly completed design for the Ravenswood Ponds and material is currently being imported for berm and upland transition zone construction. DU has also completed 60% design for the Mountain View Ponds and is working with the City of Mountain View and other project partners to permit import of material.



B. South San Francisco Bay Shoreline Project
Grantee: Santa Clara Valley Water District
\$4,439,406

The South San Francisco Bay Shoreline Project is a \$170 million effort to provide flood protection and improve public access in the north San Jose community of Alviso, and to restore 2,900 acres of former salt evaporation ponds. Measure AA funding in this first Phase closes a funding gap that will allow the Santa Clara Valley Water District (SCVWD) to move the project's planning forward and provides construction funds to the US Army Corps of Engineers as required by a cost sharing agreement.

FY 18/19 Update: The SCVWD has released a request for contractors to import dirt into the Shoreline Project site in order to build the flood protection levee and ecotone in the first phase of the project.



FY 2017/2018 in numbers:

Acres of Subtidal Habitat to be Restored: 155

Acres of Baylands Habitat to be Restored: 4,492

Acres of Upland Habitat to be Restored: 327

Miles of Bay Trail to be constructed: 3.3

C. Restoring wetland-upland transition zone habitat in the North Bay with STRAW

Grantee: Point Blue Conservation Science
\$2,661,264

With this funding, Point Blue Conservation Science will restore approximately 1.3 linear miles of critical wetland-upland transition zone habitat in the North Bay, engaging over 5,000 STRAW (Students and Teachers Restoring a Watershed) participants at four sites over the course of five years. The project will consist of design, implementation, maintenance and monitoring of climate-smart marsh to upland transition zone habitat restoration in four locations while educating youth and building a constituency of environmental supporters.

D. Montezuma Tidal and Seasonal Wetlands Restoration Project — Phase I Tidal Wetlands Area

Grantee: Montezuma Wetlands LLC
\$1,610,000

This project will convert 630 acres of currently diked baylands along Montezuma Slough to 566 acres of tidal marsh and subtidal habitat, 45 acres of seasonal wetlands, and 19 acres of high tide refuge and bird nesting habitat. Additionally, 220 acres of adjacent uplands will be enhanced to improve upland habitat quality. The project is located at a position in the San Francisco estuary where freshwater outflow from the Sacramento-San Joaquin Delta mixes with saline water from San Francisco Bay. Tidal marsh in this mixing zone supports high primary productivity that fuels the aquatic food web and provides food for many native fish species.

FY 18/19 Update: Construction of the project began in September 2018 and continued through October 2018. By the end of October, approximately 17% of the planned ecotone slope was finished and 35% of the flood protection levees were constructed.



E. Deer Island Basin Phase I Tidal Wetlands Restoration Project

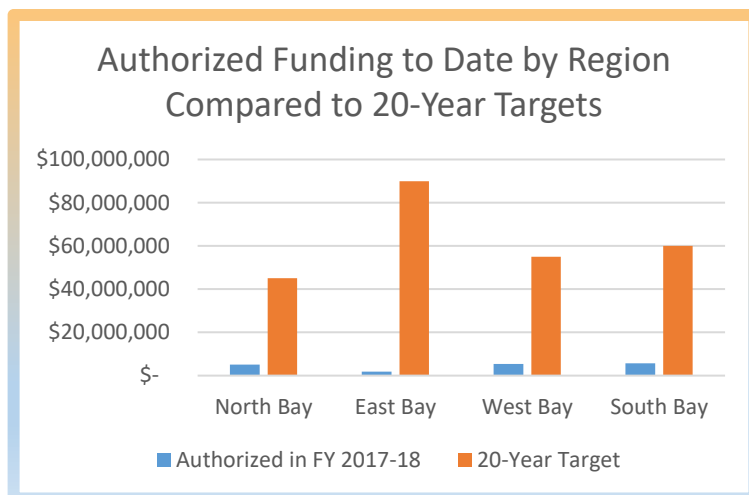
Grantee: Marin County Flood Control District
\$630,000

Marin County Flood Control District will prepare detailed designs, permit applications, and environmental documentation for the restoration of Deer Island Tidal Basin Wetlands. Preliminary plans for the project provide for restoration of up to 154 acres of diked, subsided and degraded historic tidal marsh to full tidal natural conditions, and the creation of up to 4,500 linear feet of adjacent ecotone levees in the Deer Island Tidal Basin in the lower Novato



Creek watershed. The project will serve as a demonstration of a natural levee approach and as a model project for sea level rise adaptation planning and design around the Bay edge.

FY18/19 Update: The Marin County Board of Supervisors voted unanimously to execute the \$520,000 grant disbursement agreement to pursue project design. An additional \$110,000 in grant funds will be made available and the Marin County Flood Control district has asked the Authority for an additional \$110,000 in grant funds to secure necessary permits once the design and CEQA is complete.



F. San Leandro Treatment Wetland for Pollution Reduction, Habitat Enhancement and Shoreline Resiliency

Grantee: City of San Leandro

\$539,000

The City of San Leandro is converting a 4.3-acre wastewater storage basin to create a multi-benefit treatment wetland at the City of San Leandro's Water Pollution Control Plant. Measure AA funding will support the preparation of detailed designs, permit applications, and environmental documentation for the treatment wetland, and development of a community-based shoreline resiliency and tidal marsh restoration vision for the surrounding area. Implementation of this project will significantly improve habitat conditions at a contaminated shoreline site and is anticipated to reduce nitrogen waste from the plant by at least 15%.

FY 2017/2018 in numbers:

Percent of projects that will benefit economically disadvantaged communities: 67%

Percent of projects with significant youth involvement component: 33%

Number of youth to be engaged: 5,200

Amount of funds leveraged: \$51,359,379

G. Encinal Dune Restoration and Public Access

Grantee: East Bay Regional Park District

\$450,000

With this funding, the East Bay Regional Park District will implement the Encinal Dune Restoration and Shoreline Stabilization Project at a small shoreline park in Alameda. The project will remove invasive ice plant, restore dune habitat, remove a rusting barge and other debris, stabilize eroding shoreline, and establish a beach nourishment program for the sandy beach at Encinal Beach. It will improve water access and create new trail linkages to the Encinal Boat Ramp and Alameda Point Trail. The site offers excellent opportunities to restore the beach and adjacent dunes to a more natural condition while improving both recreation and habitat values.



H. Restoration Strategy for Lower Sonoma Creek
Grantee: Sonoma Land Trust
\$150,000

Sonoma Land Trust (SLT) received Measure AA funding to develop a strategy for landscape-scale restoration, flood protection and public access in the Lower Sonoma Creek portion of the San Pablo Baylands. The Strategy will identify the optimal sequence for land acquisition and associated restoration to maximize habitat development, reduce flood risk, and minimize saltwater intrusion, and identify existing and planned trails in consultation the Bay Trail and Water Trail. The strategy will incorporate both technical analysis and input from landowners and will include recommendations to increase habitat and hydrological connectivity to the Bay across the SMART rail line and redesigned State Route 37.

FY 18/19 Update: SLT has entered into a contract with the San Francisco Estuary Institute and its subcontractors to develop the strategy. In addition, the Restoration Authority is amending the grant agreement to add \$22,500, matched by \$25,000 from the U.S. Fish and Wildlife Service, to model two additional alternatives, one that maximizes tidal restoration and one that maximizes non-tidal options for the landscape. These alternatives will be used to develop a hybrid strategy that maximizes connectivity to the uplands.



FY 2017/2018 in numbers:

8 Vital Fish, Bird and Wildlife Habitat Projects

7 Safe, Clean Water and Pollution Prevention Program Projects

5 Integrated Flood Protection Program Projects

5 Shoreline Public Access Program Projects

*Note: The Bay Restoration Regulatory Integration Team project is not counted as addressing specific Program Areas.

I. 900 Innes Remediation Project

Grantee: City and County of San Francisco, Recreation and Park Department

Amount: \$4,998,600

This authorization is for the City and County of San Francisco to remediate and restore soft-bottom intertidal and subtidal habitat at India Basin in the Bayview-Hunter's Point neighborhood. When complete, the project will improve habitat for fish and wildlife, and facilitate future actions to restore wetland functions, improve ecosystem services, and enhance public access at this site.

FY 18/19 Update: The 900 Innes Remediation Project, the final project selected from the first round of applications, was presented to the Governing Board of the Authority for funding in February 2019.

J. Bay Restoration Regulatory Integration Team (BRRIT)

Grantee: U.S. Army Corps of Engineers, U.S. Fish and Wildlife Services, National Marine Fisheries Service, California Department of Fish and Wildlife, San Francisco Bay Conservation and Development Commission, and San Francisco Bay Regional Water Quality Control Board
\$650, 000 annually for five years

The objective of the BRRIT is to improve the permitting process for multi-benefit wetland restoration projects and associated flood management and public access projects in San Francisco Bay by dedicating agency representatives to review project information for consideration as a team and process permit applications in the most efficient possible manner. The BRRIT will be available to review permit applications for any projects that meet the Measure AA criteria, regardless of whether they have applied for or received funding from the Authority.



FY 18/19 Update: The BRRIT is now fully funded with support from the State Coastal Conservancy, Santa Clara Valley Water District, East Bay Regional Park District, and the Bay Area Toll Authority to augment the Authority's funding. It is expected to be up and running by Autumn 2019.

Timeline

- June 2016 – Bay Area voters approve Measure AA with a 70% majority.
 - July 2016 - Joint Powers Agreement formed between ABAG and the Coastal Conservancy to enable staffing of the Authority.
 - March 2017 – First convening of the new Advisory Committee, comprised of representatives from Bay Area communities and public agencies, as well as restoration experts, appointed to guide the Governing Board in its transition from fundraising to administering a grant program.
 - June 2017 –Grant Guidelines updated to include an expanded definition of “economically disadvantaged communities” that incorporated input from environmental justice experts on the Advisory Committee and their community-based colleagues.
 - September 2017 – First Request for Proposals and Grant Application adopted and issued.
 - December 2017 – First tranche of Measure AA funding arrives, collected from property tax payments.
 - April 2018 – First round of grants awarded, totaling \$19 million on eight projects in seven Bay Area counties.
 - June 2018 – Advisory Committee recommended set of Performance Measures to track the activities and results on an annual basis of the Measure AA grant program. Funding authorized for the Bay Restoration Regulatory Integration Team, the first regional cross-agency team to expedite permitting for restoration work.
 - September 2018 – Independent Citizens Oversight Committee is formed. Guidelines, Request for Proposals and Grant Application revised and issued for the second round of grants.
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Financial Summary

The SFBRA received the first allotment of parcel tax funds in December 2017. A total of \$25,313,504 was collected from the Measure AA special tax in fiscal year 17/18. Investment and other revenue was \$50,550, for a total revenue of \$25,364,054 (See Appendix B for Financial Statements).

In fiscal year 2018, the SFBRA reporting classification changed from an enterprise fund to a governmental fund, which resulted in a change in the beginning Fund Balance at July 1, 2017 from -\$1,331,833 to -\$223,571 (Table 1) (See Appendix B for full details). The ballot costs were now reported as liability since those will be repaid starting in fiscal year 18/19.

Table 1. Fund Balance adjustment for FY 16/17.	
	Amount
Amount listed in FY 16/17 report	-\$1,331,833.00
Reclassification of ballot costs as liability	\$1,108,262.00
Fund Balance at July 1, 2017 as restated	-\$223,571.00

Administrative Summary

Staff implemented the work plan approved at the November 30, 2016 Governing Board meeting and a modified full program budget approved at the June 1, 2018 Governing Board meeting. A total \$1,265,675 (5% of the Measure AA tax revenue) and \$50,550 (investment income and other revenue) was transferred into for the Administrative Operations (Table 2).

Table 2. Administrative revenues and expenses.		
	Budget	Actual
Revenues		
Administrative Transfer in (5% of Measure AA revenue)	\$1,285,758.00	\$1,265,675.00
Investment Income and Other Revenues	\$0.00	\$50,550.00
Total Operating Revenue	\$1,285,758.00	\$1,316,225.00
Expenditures		
Staffing (salary and benefits and overhead)	\$437,000.00	\$426,961.00
Professional Fees	\$92,200.00	\$18,110.00
Other	\$26,500.00	\$26,814.00
Total Expenditures	\$555,700.00	\$471,885.00
Surplus	\$730,058.00	\$844,340.00
Administrative Fund Balance - Beginning, as Restated	-\$223,571.00	-\$223,571.00
Administrative Fund Balance - Ending	\$506,487.00	\$620,769.00

A total of \$555,700 was approved for the 17/18 administrative operating budget, with \$471,885 expended. This resulted in a surplus of \$844,340 for the fiscal year. When incorporating the beginning fund balance (-\$233,571



for administrative operating expenses for 16/17), the ending administrative fund balance was \$620,769. The ballot cost repayment will begin in FY 18/19, with 3 equal payments over 3 years.

Project Summary

The project based budget (95% of the tax revenue) includes approved projects, county administrative fees, and fees for the special tax assessment consultant. A total of 8 projects were approved by the Governing Board on April 11, 2018, along with a project contingency (approved on June 1, 2018) for a total project budget of \$21,565,810 (Table 3).

Table 3. SFBRA Projects	
Project Names for SFBRA Projects	Amount
South Bay Salt Ponds Restoration Project, Phase 2	\$7,421,730.00
South San Francisco Bay Shoreline Project	\$4,439,406.00
Restoring Wetland-Upland Transition Zone Habitat	\$2,661,264.00
Montezuma Tidal and Seasonal Wetlands Restoration Project	\$1,610,000.00
Deer Island Basin Phase 1 Tidal Wetlands Restoration Project	\$630,000.00
San Leandro Treatment Wetland	\$539,000.00
Encinal Dune Restoration and Public Access	\$450,000.00
Restoration Strategy for Lower Sonoma Creek	\$150,000.00
Project Contingency	\$3,664,410.00
Total Budgeted	\$21,565,810.00
Amount Expended for SFBRA Projects	\$0.00

All of the approved projects were still in the contracting process at the end of 17/18, so no project funds were expended during the fiscal year. The county tax collection fees were \$700,768, and special tax assessment consultant's fees of \$56,940 for a total of \$757,708, were the only portion of the project based budget that was expended in 17/18 (Table 4).

Table 4. Project based revenues and expenses.		
Revenues	Budget	Actual
Measure AA Special Tax	\$25,715,160.00	\$25,313,504.00
5% Transfer out to Administrative Operating Fund	\$1,285,758.00	\$1,265,675.00
Project Based Funds Available	\$24,429,402.00	\$24,047,829.00
Expenditures		
Total Expended for SFBRA Projects	\$21,565,810.00	\$0.00
County Administration Fees	\$752,168.00	\$700,768.00
Special Tax Assessment Consultant Fees	\$0.00	\$56,940.00
Total of Project Based Funds Expended	\$22,317,978.00	\$757,708.00
Project Based Fund Balance - Ending	\$2,111,424.00	\$23,290,121.00



Overall Summary

The total revenue for 17/18 was \$25,364,054 (Table 5). Administrative expenses were \$471,885 and project based expenses were \$757,708, for a total of \$1,229,593 expended for the fiscal year. The change in fund balance for FY 17/18 was \$24,134,461, with an ending fund balance of \$23,910,890.

Table 5. Statement of revenues, expenditures and changes in fund balance.	
	Amount
General Revenue	
Measure AA special tax	\$25,313,504.00
Investment Income	\$37,608.00
Miscellaneous	\$12,942.00
Total Revenue	\$25,364,054.00
Expenditures	
Administrative Expenses	\$471,885.00
Project Based Expenses	\$757,708.00
Total Expenses	\$1,229,593.00
Change in Fund Balance for FY 17/18	\$24,134,461.00
Fund Balance - Beginning	-\$223,571.00
Fund Balance - Ending	\$23,910,890.00



Appendices

Appendix A: Performance Measures Table, Fiscal Year 2017-2018

Appendix B: Financial Statements for the San Francisco Bay Restoration Authority for the Year Ended June 30, 2018. This report includes the Independent Auditor's Report, Basic Financial Statements and other analysis and supplemental information.



Appendix A: Performance Measures Table, Fiscal Year 2017-2018

Performance Measures	Unit	Amount
Projects Authorized by the Governing Board	Projects	9
Types of Organization Funded		
Public Agency	Projects	4
Non-Profit Organization	Projects	3
Private For-Profit Entity	Projects	1
Public-Private Partnership	Projects	0
Multi-Agency Partnership or Joint Powers Authority	Projects	1
Types of Projects		
Measure AA Program Areas Addressed		
Note: All projects addressed two or more Program Areas.		
Clean Water	Projects	7
Habitat Restoration	Projects	8
Flood Protection	Projects	5
Public Access	Projects	5
Pilot or demonstration projects	Projects	2
Special projects	Projects	1
Note: The special project funded in FY 2017/2018 was the Bay Restoration Regulatory Integration Team. This project is not counted as addressing specific Program Areas.		
Project Phases Funded		
Pre-Construction Only Projects	Projects	4
Construction Projects	Projects	5
Post-Construction Only Projects	Projects	0
Habitat Restoration and Enhancement		
Number of restoration plans to be completed	Plans	5



Specific species targeted for restoration	List of specific target species for restoration	salt marsh harvest mouse, ornate shrew, California vole, Ridgway's rail, black rail, California least tern, western snowy plover, red knot, western sandpiper, northern pintail, mallard, snowy egret, salmonids, steelhead trout, tidewater goby, delta smelt, longfin smelt
Number of acres of habitat to be constructed divided by type		
• Subtidal habitats	Acres	155
• Baylands habitats	Acres	4,492
• Upland habitats providing transition habitat and/or migration space	Acres	327
Total acres	Acres	4,974
Benefits to Economically Disadvantaged Communities		
Percentage of projects providing benefits to economically disadvantaged communities	Percent of Projects	67
Youth Involvement		
Percentage of projects with significant youth involvement component	Percent of Projects	33
Number of youth to be engaged	People	5,200
Volunteer Involvement		
Volunteer time	Hours	58,730
Number of unique volunteers expected to participate in restoration	Volunteers	5,280
Public Access		
Miles of Bay Trail to be designed	Miles	3.3
Miles of Bay Trail to be constructed	Miles	3.3
Miles of other trail to be designed (non-Bay Trail)	Miles	2.9



Miles of other trail to be constructed (non-Bay Trail)	Miles	2.9
Water trail sites to be planned or constructed	Sites	0
Public access enhancements	Enhancements	1
Geographic Distribution of Funds Authorized		
North Bay	Dollars	\$ 5,051,264.00
East Bay	Dollars	\$ 1,802,386.00
West Bay	Dollars	\$ 5,394,958.00
South Bay	Dollars	\$ 5,652,792.00
Baywide	Dollars	\$ 1,250,000.00
Total	Dollars	\$ 19,151,400.00
Matching Funds and Other Contributions		
Total dollars matched by other funding sources	Dollars	\$ 51,359,379.00
Private contributions	Dollars	\$ -
Other government contributions	Dollars	\$ -
Administrative Costs from Tax Revenue		
Program administrative costs from tax revenue as a percentage of the total tax proceeds collected	Percent of Funds	2.55



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	<u>143</u>
TOTAL ASSETS	<u>24,040,729</u>
 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	<u>738,841</u>
TOTAL LIABILITIES	<u>1,238,101</u>
 NET POSITION	
Unrestricted	<u>22,802,628</u>
TOTAL NET POSITION	<u><u>\$ 22,802,628</u></u>

See accompanying notes to basic financial statements

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

						Net (Expenses) Revenues and Change in Net Position
						Governmental Activities
			Program Revenues			
	Expenses	Charges for Services	Operating Grants and contributions	Capital Grants and Contributions	Total Program Revenue	Total
Functions:						
Governmental Activities:						
General Government	\$ 471,885	\$ -	\$ -	\$ -	\$ -	\$ (471,885)
Restoration / Preservation	757,708	-	-	-	-	(757,708)
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						12,942
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	\$	24,040,729

LIABILITIES

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

FUND BALANCE

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

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	\$ 24,134,461

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:

	SFBRA
Fund balance at July 1, 2017, as previously reported	\$ (1,331,833)
Fund reclassification	1,108,262
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>\$ 23,842,146</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>\$ 11,864,624</u>

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

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	\$ -	\$ 11,977,522	\$ -	\$ 11,977,522

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
Financial Statements for the Year Ended June 30, 2018
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 Depositary 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.

San Francisco Bay Restoration Authority
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:

County	Fiscal Year Ending 6/30/2018
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	<u>-</u>	<u>752,168</u>	<u>700,768</u>	<u>51,400</u>
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	<u>-</u>	<u>(1,285,758)</u>	<u>(1,265,675)</u>	<u>20,083</u>
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></u>	<u><u>\$ 2,111,424</u></u>	<u><u>\$ 23,290,121</u></u>	<u><u>\$ 21,178,697</u></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	<u>555,700</u>	<u>-</u>	<u>12,942</u>	<u>12,942</u>
Total Revenues	<u>555,700</u>	<u>-</u>	<u>50,550</u>	<u>50,550</u>
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	<u>27,200</u>	<u>26,500</u>	<u>26,814</u>	<u>(314)</u>
Total Expenditures	<u>555,700</u>	<u>555,700</u>	<u>471,885</u>	<u>83,815</u>
Revenues Over (Under) Expenditures	<u>-</u>	<u>(555,700)</u>	<u>(421,335)</u>	<u>134,365</u>
Other Financing Sources (Uses)				
Transfer in from Project Fund	<u>-</u>	<u>1,285,758</u>	<u>1,265,675</u>	<u>(20,083)</u>
Net Change in Fund Balances	<u>-</u>	<u>730,058</u>	<u>844,340</u>	<u>114,282</u>
Fund balances - beginning, as restated	<u>(223,571)</u>	<u>(223,571)</u>	<u>(223,571)</u>	<u>-</u>
Fund balances - ending	<u>\$ (223,571)</u>	<u>\$ 506,487</u>	<u>\$ 620,769</u>	<u>\$ 114,282</u>

⁽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