

# **San Francisco Bay Restoration Authority**

**Financial Statements  
For the Year Ended June 30, 2019**

# San Francisco Bay Restoration Authority

## Table of Contents

For the Year Ended June 30, 2019

---

	<b>Page</b>
<b>Independent Auditor’s Report</b>	1 - 2
<b>Management’s Discussion and Analysis</b>	3 - 7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Governmental Financial Statements	
Balance Sheet – Governmental Fund	10
Reconciliation of the Balance Sheet – Governmental Fund to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Change in Fund Balance – Governmental Fund	12
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance – Governmental Fund to the Statement of Activities	13
Notes to the Financial Statements	
Summary of Significant Accounting Policies	14 - 18
Net Position	18
Cash and Investments	19 - 21
Due to Other Governments	22
Advance from Other Governments	22
Property Tax Revenues	23
Risk Management	23
Related Party Transactions	23
Subsequent Events	23
<b>Required Supplementary Information (unaudited)</b>	
Schedule of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual – SFBRA - Project	25
Schedule of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual – SFBRA - Operating	26
<b>Other Supplementary Information</b>	
Schedule of Approved Projects	28
<b>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 <i>Government Auditing Standards</i></b>	29 - 30



## 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, 2019, 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, 2019, 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 is not a required part of the basic financial statements.

The schedule of approved projects is the responsibility of management and was 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 6, 2019 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 the SFBRA's internal control over financial reporting and compliance.



Walnut Creek, California

December 6, 2019

**San Francisco Bay Restoration Authority  
Financial Statements for the Year Ended June 30, 2019  
Management's Discussion and Analysis (unaudited)**

---

**Management's Discussion and Analysis**

San Francisco Bay Restoration Authority (SFBRA) is a regional agency created to raise and fund shoreline projects that will protect, restore, and enhance San Francisco Bay. SFBRA enacted the Measure AA parcel tax. The annual tax levies commenced on July 1, 2017 with an ending date of June 30, 2037. This section presents an overview of the financial activities of SFBRA for the year ended June 30, 2019. 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**

The majority of the activities in fiscal year 2019 were collecting the special tax assessment revenue, awarding grants and expansion of the restoration projects. The following are some of the highlights from fiscal year 2019.

- Collected Measure AA special tax revenue total of \$25,499,815.
- Authorized project funds total of \$19,817,302.
- Total project expenditures in fiscal year 2019 was \$3,270,870.
- Recommended 5 projects from the second round of grants.

**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 2019 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 2019 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 is 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 Change 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, 2019**  
**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:

	<b>Governmental Activities</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and investments	\$ 47,670,386	\$ 23,842,146
Receivable	251,360	198,440
Prepaid items	3,190	143
<b>Total Assets</b>	<b>47,924,936</b>	<b>24,040,729</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	2,230,307	23,513
Retention payable	327,087	-
Due to other governments	265,271	106,326
Non-current liabilities:		
Advance from other government	738,841	1,108,262
<b>Total Liabilities</b>	<b>3,561,506</b>	<b>1,238,101</b>
<b>NET POSITION</b>		
Unrestricted	44,363,430	22,802,628
<b>Total Net Position</b>	<b>\$ 44,363,430</b>	<b>\$ 22,802,628</b>

Total cash and investments increased by \$23,828,240 from 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 increased by \$2,206,794 from fiscal year 2018. The increase was mainly due to unpaid vendors' invoices for project costs. Retention payable increased by \$327,087 as a result of withholding 10 percent of vendors' invoice amount for project costs. Project activities started in fiscal year 2019.

Due to other governments increased by \$158,945 from fiscal year 2018. The increase was mainly due to the amount owed to Metropolitan Transportation Commission (MTC) for financial service fees in fiscal year 2019.

Long-term liabilities decreased by \$369,421 from fiscal year 2018. The decrease in long-term liabilities was due to the installment repayments to the three agencies that advanced funds to SFBRA for ballot costs. Refer to Note 5 for further information

SFBRA had net position of \$44,363,430 as of June 30, 2019. Net position increased by \$21,560,802 from June 30, 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, 2019**  
**Management's Discussion and Analysis (unaudited)**

---

*Statement of Activities*

The following table shows a summary of SFBRA's government-wide Statement of Activities for last two fiscal year:

	<b>Governmental Activities</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenues:</b>		
Program Revenue:		
Capital grants and contribution	\$ 375,000	\$ -
General Revenue:		
Measure AA special tax	25,499,815	25,313,504
Investment earnings	528,927	37,608
Miscellaneous	20,107	12,942
<b>Total Revenues</b>	<b>26,423,849</b>	<b>25,364,054</b>
<b>Expenses:</b>		
General Government	807,708	471,885
Restoration /Preservation	4,055,339	757,708
<b>Total Expenses</b>	<b>4,863,047</b>	<b>1,229,593</b>
<b>Change in Net Position</b>	<b>21,560,802</b>	<b>24,134,461</b>
<b>Net Position - Beginning</b>	<b>22,802,628</b>	<b>(1,331,833)</b>
<b>Net Position - Ending</b>	<b>\$ 44,363,430</b>	<b>\$ 22,802,628</b>

Total program revenue increased by \$375,000 in fiscal year 2019 compared to fiscal year 2018. The increase was due to the contributions from local governments for the Bay Restoration Regulatory Integration Team (BRRIT) project.

Total general revenue increased by \$684,795 from fiscal year 2018. The increase was primarily due to the increase in investment earnings. SFBRA invested in Local Agency Investment Fund (Laif) in fiscal year 2018. In addition to investing in Laif, SFBRA started investing in government sponsored enterprises notes in fiscal year 2019.

Total expenses in general government increased by \$335,823 from fiscal year 2018. The increase was mainly due to the increases in costs associated with the administrative services provided by State Coastal Conservancy (SCC) and MTC as SFBRA program and projects started to expand in fiscal year 2019.

Total expenses in restoration/preservation of the San Francisco Bay increased by \$3,297,631 in fiscal year 2019 compared to fiscal year 2018. The increase was mainly due to the fact that the SFBRA began incurring project costs in fiscal year 2019.

**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**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 2019 and amended the budget in June 2019.

The SFBRA general fund budget for fiscal year 2019 was amended from the adopted budget by \$225,000 in decreased revenues and \$5,696,822 in increased expenditures. The actual revenues-to-expenditures balance for fiscal year 2019 reflects a surplus of \$21,191,381. The expenditure variance of \$13,241,021 was mainly due to the timing of awarded grants for which the projects had not started as of fiscal year end and most of projects running for multiple years. The following provides a condensed view of the final budget compared to actual for the year ended June 30, 2019.

<b>General Fund</b>				
	Adopted Budget	Final Budget	Actual	Variance
Revenue	\$ 26,615,160	\$ 26,390,160	\$ 26,423,849	\$ 33,689
Expenditures	12,776,667	18,473,489	5,232,468	13,241,021
Net change in fund balance	13,838,493	7,916,671	21,191,381	13,274,710
Fund balance - beginning	23,910,890	23,910,890	23,910,890	-
Fund balance - ending	<u>\$ 37,749,383</u>	<u>\$ 31,827,561</u>	<u>\$ 45,102,271</u>	<u>\$ 13,274,710</u>

**G. Economic Factors**

The Bay Area economy continued its record expansion in fiscal year 2019.

- Retail sales increased for the ninth straight year, increasing 8.3 percent in fiscal year 2019.
- Unemployment slipped below 3 percent in June 2019, slightly below the 3.1 percent in June 2018.
- Building construction and housing development also continue to respond to high demand and low financing rates.

The combination of new housing starts and more overall construction create the potential for more parcel tax revenue in the future.



**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**Management's Discussion and Analysis (unaudited)**

---

**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, 2019**

---

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash	\$ 21,797,479
Investments	25,872,907
Receivables - Measure AA special tax	105,436
Interest receivable	145,924
Prepaid items	3,190
<b>Total Assets</b>	<u>47,924,936</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	2,230,307
Retention payable	327,087
Due to other governments	265,271
Non-current liabilities:	
Advance from other governments	
Due within one year	369,421
Due in more than one year	369,420
<b>Total Liabilities</b>	<u>3,561,506</u>
<b>NET POSITION</b>	
Unrestricted	<u>44,363,430</u>
<b>Total Net Position</b>	<u>\$ 44,363,430</u>

See accompanying notes to financial statements

**San Francisco Bay Restoration Authority**  
**Statement of Activities**  
**For the Year Ended June 30, 2019**

	<b>Program Revenues</b>				<b>Net (Expenses) Revenues and Change in Net Position</b>	
					<b>Governmental Activities</b>	
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Total Program Revenue</b>	<b>Total</b>
<b>Functions:</b>						
<b>Governmental Activities:</b>						
General Government	\$ 807,708	\$ -	\$ -	\$ -	\$ -	\$ (807,708)
Restoration /Preservation	4,055,339	-	-	375,000	375,000	(3,680,339)
<b>Total Governmental Activities</b>	<u>\$ 4,863,047</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 375,000</u>	<u>\$ 375,000</u>	<u>\$ (4,488,047)</u>
General Revenue:						
Measure AA special tax						25,499,815
Investment earnings						528,927
Miscellaneous						20,107
<b>Total General Revenue</b>						<u>26,048,849</u>
<b>Change in Net Position</b>						21,560,802
<b>Net Position - beginning</b>						22,802,628
<b>Net Position - ending</b>						<u>\$ 44,363,430</u>

See accompanying notes to financial statements

**San Francisco Bay Restoration Authority**  
**Balance Sheet**  
**June 30, 2019**

---

**ASSETS**

Cash	\$ 21,797,479
Investments	25,872,907
Receivables - Measure AA special tax	105,436
Interest receivable	145,924
Prepaid items	<u>3,190</u>
<b>Total Assets</b>	<u><u>\$ 47,924,936</u></u>

**LIABILITIES**

Accounts payable and accrued liabilities	\$ 2,230,307
Retention payable	327,087
Due to other governments	<u>265,271</u>
<b>Total Liabilities</b>	<u>2,822,665</u>

**FUND BALANCES**

Nonspendable:	
Prepaid items	3,190
Committed to:	
Restoration / preservation SF Bay Projects	15,116,003
Assigned to:	
Restoration / preservation SF Bay Projects	19,331,829
Unassigned	<u>10,651,249</u>
<b>Total Fund Balances</b>	<u>45,102,271</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 47,924,936</u></u>

See accompanying notes to financial statements

**San Francisco Bay Restoration Authority**  
**Reconciliation of the Balance Sheet – Governmental Fund**  
**to the Statement of Net Position**  
**June 30, 2019**

---

Fund Balance to Governmental Fund	\$ 45,102,271
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 is not reported in the fund	(738,841)
<b>Net position of Governmental Activities</b>	<b>\$ 44,363,430</b>

See accompanying notes to financial statements

**San Francisco Bay Restoration Authority**  
**Statement of Revenues, Expenditures, and Change in Fund Balance –**  
**Governmental Fund**  
**For the Year Ended June 30, 2019**

---

**REVENUES**

Measure AA special tax	\$ 25,499,815
Revenue - local governments	375,000
Investment income	528,927
Miscellaneous	20,107
<b>Total Revenues</b>	<u>26,423,849</u>

**EXPENDITURES**

Salaries & benefits	343,238
Financial service fees	125,120
Allocation to other agencies	3,270,870
Professional fees	57,975
County fees	735,669
Overhead	237,759
Payments on advance from other governments	369,421
Other	92,416
<b>Total Expenditures</b>	<u>5,232,468</u>

<b>Net Change in Fund Balance</b>	21,191,381
<b>Fund Balance - beginning</b>	<u>23,910,890</u>
<b>Fund Balance - ending</b>	<u>\$ 45,102,271</u>

See accompanying notes to financial statements

**San Francisco Bay Restoration Authority**  
**Reconciliation of the Statement of Revenues, Expenditures and Change**  
**in Fund Balance – Governmental Fund to the Statement of Activities**  
**For the Year Ended June 30, 2019**

---

Net Change in Fund balance - Total Governmental Funds (per Statement of Revenues, Expenditures and Change in Fund Balance) \$ 21,191,381

Payments on advance from other governments are reported as expenses in the Statement of Revenues, Expenditures and Change in Fund Balance

369,421

**Change in Net Position of Governmental Activities (per Statement of Activities)**

\$ 21,560,802

See accompanying notes to financial statements

**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**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. 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.

SFBRA, the State Coastal Conservancy (SCC) and ABAG desired to reduce redundancy and increase efficiency by jointly carrying out their common grant-making powers in the expenditure of Measure AA funds. On October 24, 2016 SCC, ABAG and SFBRA entered into 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, 2019**  
**Notes to the Financial Statements**

---

***Fund Financial Statements***

SFBRA presents a governmental fund, which consists of operating/administration and project funds. A 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 the San Francisco Bay Wetland. Both activities are presented in 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 days after year end. Expenditures generally are recorded when liabilities are incurred, as under the accrual basis of accounting.

**New Accounting Pronouncements**

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 are effective for reporting periods beginning after June 15, 2018. This standard did not have any impact 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. 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

**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**Notes to the Financial Statements**

---

information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. This standard did not have any impact 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.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance on how to improve reporting of Majority Equity Interests. This statement improves the consistency and comparability of reporting a government's majority equity interest in legally separate organization and to improve the relevance of financial statement information for certain component units. 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. 91, *Conduit Debt Obligations*, provides single method of reporting conduit debt obligations. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. 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.
- 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 included in the determination of net investment in capital assets or the restricted component of net position.

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.

**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**Notes to the Financial Statements**

---

**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. 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

**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**Notes to the Financial Statements**

---

- 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 securities 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, Expenditures and Change in fund balance.

SFBRA considers all balances in demand deposit accounts 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.

### **G. Prepaid Items**

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

### **H. Revenue Recognition**

Revenue will primarily be comprised of special assessments from Measure AA secured through property taxes, which are recognized in the year of levy if their receipt occurs within 60 days after year-end.

### **I. Allocation to other agencies**

Allocation to other agencies consists of the project costs of the restoration / preservation of the San Francisco Bay.

## **2. NET POSITION**

SFBRA has a positive net position of \$44,363,430. The positive position is mainly the result of the collection of special assessments from Measure AA.

**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**Notes to the Financial Statements**

---

**3. CASH AND INVESTMENTS**

A. A summary of Cash and Investments as shown on the Statement of Net Position at June 30, 2019 is as follows:

Cash	\$ 21,797,479
Investments	<u>25,872,907</u>
Total Cash and Investments	<u><u>\$ 47,670,386</u></u>

B. The composition of cash and investments at June 30, 2019 is as follows:

**Cash**

Cash at banks	\$ 21,756,547
Money market mutual funds	<u>40,932</u>
Total Cash	<u><u>\$ 21,797,479</u></u>

The mutual fund investments in SFBRA’s investment portfolio are expressed as a percentage of SFBRA’s total cash and investments as follows:

	<u>June 30, 2019</u>
Money market mutual funds	
Morgan Stanley Government Portfolio	less than 1%

The Morgan Stanley Government Portfolio is part of the overnight sweep fund utilized by the Union Bank custodial account. The fund invests in obligations issued or guaranteed by the U.S. Government and its agencies and instrumentalities and in repurchase agreements collateralized by such securities. The fund is rated “AAA/Aaa” by Standard and Poor’s and Moody’s, respectively.

**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.

**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**Notes to the Financial Statements**

---

**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, 2019:

Government-sponsored enterprises notes are valued on the basis of prices provided by ICE Data Pricing and Reference Data LLC. In determining the value of a particular investment at bid, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments.

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.

<b>Investments by fair value level at June 30, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Government sponsored enterprises:				
Federal Home Loan Bank	\$ -	\$ 13,585,406	\$ -	\$ 13,585,406
Government Pool Investments:				
Local Agency Investment Fund*	-	12,287,501	-	12,287,501
Total investments measured at fair value	<u>\$ -</u>	<u>\$ 25,872,907</u>	<u>\$ -</u>	<u>\$ 25,872,907</u>

\*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.

**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**Notes to the Financial Statements**

---

**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.

**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.

Under California Government Code Sections 53651 and 53652, 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. Investments in issuers that represent 5 percent or more of total cash and investments at June 30, 2019 are as follows:

Federal Home Loan Bank (FHLB)	28%
Local Agency Investment Fund (LAIF)	26%

**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, 2019 is 0.47 years.

The weighted average maturities of SFBRA's government sponsored enterprises securities (expressed in number of years) at June 30, 2019 are as follows:

Government sponsored enterprises	
Federal Home Loan Bank	0.02

**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**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 2019. A schedule of due to other governments is as follows:

<b>Agency</b>	<b>Amount</b>	<b>Notes</b>
Metropolitan Transportation Commission	\$ 133,021	FY19 financial service fees and June 2019 program staff services
State Coastal Conservancy	132,250	April to June 2019 Services
<b>Total as of 6/30/19</b>	<b>\$ 265,271</b>	

**5. ADVANCE FROM OTHER GOVERNMENTS**

Advance from other governments includes the amount due to the three agencies 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:

<b>Agency</b>	<b>Due within one year</b>	<b>Due in more than one year</b>	<b>Total</b>	<b>Notes</b>
Santa Clara Valley Water District	\$ 277,065	\$ 277,066	\$ 554,131	Advanced fund for ballot costs. Two installment repayments due December 31, 2019, and 2020.
Sonoma County Water Agency	46,178	46,177	92,355	Advanced fund for ballot costs. Schedule of repayments to be mutually agreed upon, planned for December 31, 2019 and 2020.
East Bay Regional Park District	46,178	46,177	92,355	Advanced fund for ballot costs. Two installment payments due December 31, 2019 and 2020.
<b>Total as of 6/30/2019</b>	<b>\$ 369,421</b>	<b>\$ 369,420</b>	<b>\$ 738,841</b>	



**San Francisco Bay Restoration Authority**  
**Financial Statements for the Year Ended June 30, 2019**  
**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, 2019 are noted as follows for each county:

<u>County</u>	<u>Fiscal Year Ending</u> <u>6/30/2019</u>
Alameda	\$ 5,174,945
Contra Costa	4,268,052
Marin	1,085,483
Napa	561,722
San Francisco	2,415,983
San Mateo	2,575,176
Santa Clara	5,725,236
Solano	1,633,086
Sonoma	2,060,132
<b>Total Property Tax Revenues</b>	<b>\$ 25,499,815</b>

**7. RISK MANAGEMENT**

SFBRA is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. 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 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 a 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 primary staff functions that SCC provides to SFBRA include Executive Officer, Clerk of the Board, legal, and program services. The primary staff functions that MTC provides to SFBRA include Fiscal Agent/Treasurer and program services. SFBRA paid \$415,434 and \$291,100 to SCC and MTC, respectively, for the services provided during fiscal year 2019.

**9. SUBSEQUENT EVENTS**

SFBRA has evaluated subsequent events for the period from June 30, 2019 through December 6, 2019, the date the financial statements were available to be issued, and no subsequent events have been identified.

## REQUIRED SUPPLEMENTARY INFORMATION

**San Francisco Bay Restoration Authority**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual**  
**SFBRA – Project (unaudited)**  
**For the Year Ended June 30, 2019**

---

	Original Budget <sup>(1)</sup>	Final Budget <sup>(1)</sup>	Actual	Variance from Final Budget
<b>REVENUES</b>				
Measure AA special tax	\$ 25,715,160	\$ 25,715,160	\$ 25,499,815	\$ (215,345)
Revenue - local governments	<u>600,000</u>	<u>375,000</u>	<u>375,000</u>	<u>-</u>
<b>Total Revenues</b>	<u>26,315,160</u>	<u>26,090,160</u>	<u>25,874,815</u>	<u>(215,345)</u>
<b>EXPENDITURES</b>				
Allocation to other agencies	6,848,600	19,817,302	3,270,870	16,546,432
Project contingency	3,664,410	(3,664,410)	-	(3,664,410)
Professional fees	47,500	104,440	48,800	55,640
County fees	<u>752,170</u>	<u>752,170</u>	<u>735,669</u>	<u>16,501</u>
<b>Total Expenditures</b>	<u>11,312,680</u>	<u>17,009,502</u>	<u>4,055,339</u>	<u>12,954,163</u>
<b>REVENUES OVER EXPENDITURES</b>	15,002,480	9,080,658	21,819,476	12,738,818
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out to Operating Fund	<u>(1,285,758)</u>	<u>(1,285,758)</u>	<u>(1,274,991)</u>	<u>10,767</u>
<b>NET CHANGE IN FUND BALANCES</b>	13,716,722	7,794,900	20,544,485	12,749,585
Fund balances - beginning	<u>23,290,121</u>	<u>23,290,121</u>	<u>23,290,121</u>	<u>-</u>
Fund balances - ending	<u>\$ 37,006,843</u>	<u>\$ 31,085,021</u>	<u>\$ 43,834,606</u>	<u>\$ 12,749,585</u>

<sup>(1)</sup> Budget Prepared in accordance with GAAP

**San Francisco Bay Restoration Authority**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual**  
**SFBRA – Operating (unaudited)**  
**For the Year Ended June 30, 2019**

	Original Budget <sup>(1)</sup>	Final Budget <sup>(1)</sup>	Actual	Variance from Final Budget
<b>REVENUES</b>				
Investment income	\$ 300,000	\$ 300,000	\$ 528,927	\$ 228,927
Other	-	-	20,107	20,107
<b>Total Revenues</b>	<b>300,000</b>	<b>300,000</b>	<b>549,034</b>	<b>249,034</b>
<b>EXPENDITURES</b>				
Salaries & benefits	109,408	109,408	343,238	(233,830)
Financial service fees	-	-	125,120	(125,120)
Professional fees	1,082,385	1,082,385	9,175	1,073,210
Overhead	54,994	54,994	237,759	(182,765)
Payments on advance from other governments	-	-	369,421	(369,421)
Other	217,200	217,200	92,416	124,784
<b>Total Expenditures</b>	<b>1,463,987</b>	<b>1,463,987</b>	<b>1,177,129</b>	<b>286,858</b>
<b>REVENUES UNDER EXPENDITURES</b>	<b>(1,163,987)</b>	<b>(1,163,987)</b>	<b>(628,095)</b>	<b>535,892</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in from Project Fund	1,285,758	1,285,758	1,274,991	(10,767)
<b>Total Other Financing Sources</b>	<b>1,285,758</b>	<b>1,285,758</b>	<b>1,274,991</b>	<b>(10,767)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>121,771</b>	<b>121,771</b>	<b>646,896</b>	<b>525,125</b>
Fund balances - beginning	620,769	620,769	620,769	-
Fund balances - ending	<u>\$ 742,540</u>	<u>\$ 742,540</u>	<u>\$ 1,267,665</u>	<u>\$ 525,125</u>

<sup>(1)</sup> Budget Prepared in accordance with GAAP

## OTHER SUPPLEMENTARY INFORMATION

**San Francisco Bay Restoration Authority**  
**Schedule of Approved Projects**  
**For the Year Ended June 30, 2019**

---

<b>Project</b>	<b>Grant Amount</b>	<b>Cumulative Expenses through 6/30/2019</b>	<b>Remaining Grant Balance</b>
South Bay Salt Ponds Restoration Project, Phase 2	\$ 8,021,730	\$ 247,389	\$ 7,774,341
South San Francisco Bay Shoreline Project for Economic Impact Area 11	15,439,406	1,839,899	13,599,507
Restoring wetland-upland transition zone habitat in the North Bay with STRAW	2,661,264	282,632	2,378,632
Montezuma Tidal and Seasonal Wetlands Restoration Project — Phase I Tidal Wetlands Area	1,610,000	769,563	840,437
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	30,934	508,066
Encinal Dune Restoration and Public Access	450,000	4,775	445,225
Restoration Strategy for Lower Sonoma Creek	172,500	95,678	76,822
Bay Restoration Integration Team (BRRIT) *	2,227,286		2,227,286
900 Innes Remediation Project	4,998,600		4,998,600
Tisornia Marsh Restoration and Sea Level Adaptation	968,916		968,916
<b>Grant Total</b>	<b>\$ 37,718,702</b>	<b>\$ 3,270,870</b>	<b>\$ 34,447,832</b>

\* BRRIT improves the permitting process for SFBRA projects by reviewing project information for consideration and processing permit application in the most efficient possible manner. BRRIT is funded by both tax revenue and local government contributions.



**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, 2019, 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 6, 2019.

**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 6, 2019