ABAG
FINANCE AUTHORITY
FOR NONPROFIT CORPORATIONS

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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For the Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Executive Committee of the
ABAG Finance Authority for Nonprofit Corporations
San Francisco, California

We have audited the accompanying financial statements of the business-type activities of the ABAG Finance Authority for Nonprofit Corporations (Authority), California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority'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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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. 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 Authority'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 Authority'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2017, and the respective change in financial position and cash flows thereof 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 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.

Maze & Associates

Pleasant Hill, California
January 10, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The ABAG Finance Authority for Nonprofit Corporations (Authority) has issued the financial reports for fiscal year ending June 30, 2017, prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board is the acknowledged standards setting body for the establishment of these principles.

This discussion and analysis provides an overview of financial activities in the fiscal year and it should be read in conjunction with the accompanying financial statements.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements include:

1. Statement of Net Position—provides information about the financial position of the Authority, including assets, liabilities and net position. The difference between this statement and the traditional Balance Sheet is that net position (fund equity) is shown as the difference between total assets and total liabilities.

2. Statement of Activities—presents revenues, expenses and changes in net position for the fiscal year. It differs with the traditional Statement of Revenues and Expenses in that revenues and expenses directly attributable to operating programs are presented separately from investment income and financing costs.

3. Statement of Cash Flows—provides itemized categories of cash flows. This statement differs from the traditional Statement of Cash Flows in that it presents itemized categories of cash inflows and outflows instead of computing the net cash flows from operation by backing out non-cash revenues and expenses from net operating surplus/deficit. In addition, cash flows related to investments and financing activities are presented separately.

FISCAL YEAR 2017 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Authority's total net position at June 30, 2017 was $4.602 million, an increase of 1.6% over the June 30, 2016 balance of $4.529 million. Assets decreased $226,010 while liabilities decreased $299,123. The major factor in the decrease of liabilities at June 30, 2017,was the payment of $216,621 to the consultants who performed the forensic examination of FAN accounts following the 2014 embezzlement.

- The Authority's total revenue, including program revenue, and general revenues were $1.216 million in FY 2017, a decrease of 35% from FY 2016. Total expenses were $1.143 million, an increase of 4% over FY 2016. These expenses consist largely of the salary and benefits of the Financial Services Director/Secretary to Executive Committee, the only fulltime employee assigned to the Authority during the year, two consultant who performed marketing and accounting services, and temporary personnel who performed a comprehensive review of the FAN conduit debt portfolio.

MAJOR FINANCING ACTIVITY IN FY 2016-2017

The Authority coordinated the issuance of $47,425,000 Refunding Revenue Bonds and $123,460,000 Taxable Refunding Revenue Bonds, to refund the Windemere Ranch outstanding of the 2007 Senior Revenue Bonds, Series A.

The Authority assisted the Crean Lutheran High School of Irvine in issuing $33 million in tax-exempt financing to refund outstanding debt and raise new money to continue construction of existing facilities. The Authority also assisted the Presidio Knolls School of San Francisco, California in issuing $4.9 million in tax-exempt financing to refund an existing loan and to renovate existing facilities.

OUTLOOK FOR FY 2017-18

The ABAG and MTC Boards have agreed to form a new conduit financing authority, Advancing California Financing Authority (ACFA) to conduct future conduit financing activity. The Authority will continue servicing it outstanding portfolio of conduit loans, and continue to administer the four Community Facilities Districts and one Assessment District that it currently administers. As of the date of this report, there are no management or staff personnel serving the Authority, as their primary responsibility.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This Financial Report is intended to provide citizens, taxpayers, creditors, regulators, and contracting entities with a general overview of the Authority's finances. Questions about this Report should be directed to the MTC Finance Department, at 375 Beale Street, Suite 800, San Francisco, California 94105.

ABAG
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
STATEMENT OF NET POSITION
JUNE 30, 2017

	Financing Program
CURRENT ASSETS	
Cash and Cash Equivalents (Note 2):	$4,308,518
Receivables:	
Other	105,047
Interest	7,627
Total Current Assets	4,421,192
NONCURRENT ASSETS	
Other Prepaid Expenses	17,028
Installment Sale Agreement (Note 2G)	216,000
Total Noncurrent Assets	233,028
Total Assets	4,654,220
LIABILITIES	
Accounts Payable	51,805
Total Current Liabilities	51,805
NET POSITION	
Unrestricted	4,602,415
Total Net Position	$4,602,415

See accompanying notes to basic financial statements

ABAG
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Financing Program
PROGRAM REVENUES	
Annual Fees:	
Annual Administration Fees	$681,739
Annual Project Monitoring Fee	217,762
Application Fees	3,500
Closing Fees	276,425
Total Program Revenues	1,179,426
PROGRAM EXPENSES	
Consultant Services	1,142,701
Total Program Expenses	1,142,701
Net Program Income	36,725
GENERAL REVENUES	
Interest Income	36,388
Total General Revenues	36,388
CHANGE IN NET POSITION	73,113
NET POSITION - BEGINNING	4,529,302
NET POSITION - ENDING	$4,602,415

See accompanying notes to basic financial statements

ABAG
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Financing Program
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Fees	$1,798,330
Payment of Consultant Costs	(1,458,852)
Net Cash Flows from Operating Activities	339,478
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	32,883
Installment Sale Agreement Collections	77,747
Net Cash Flows from Investing Activities	110,630
Net Cash Flows	450,108
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	3,858,410
CASH AND CASH EQUIVALENTS- END OF YEAR	$4,308,518
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Income	$36,725
Change in Assets and Liabilities:	
Other Receivables	618,904
Accounts Payable	(299,123)
Other Prepaid Expenses	(17,028)
Net Cash Flows from Operating Activities	$339,478

See accompanying notes to basic financial statements

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description

Description of Reporting Entity **-** The ABAG Finance Authority for Nonprofit Corporations (Authority) is a joint powers authority comprising California municipalities. The Authority is governed by a board appointed by its members.

The Authority assists eligible nonprofit entities and other borrowers in obtaining tax-exempt financing. Eligible entities include nonprofit corporations organized under Internal Revenue Code 501(c)(3) and other qualified borrowers financing projects in the public interest. The Authority acts as a conduit for eligible entities. Payments by these borrowers are used to repay their respective debt. As a conduit, the Authority is not liable for the repayment of debt in the event of a default by a borrower.

The Association of Bay Area Governments (ABAG) assists the Authority by providing administrative, accounting and clerical support. The Authority paid ABAG $617,505 for these services and $187,413 for contract services in the fiscal year ended June 30, 2017.

Any California County or City can become a member of the Authority. However, since not all ABAG members are members of the Authority, it is not a component unit of ABAG and its financial results and results of operations are not blended with those reported by ABAG.

Reporting Entity – The accompanying basic financial statements present the financial activity of the Authority.

Program – The accompanying basic financial statements of the Authority consists of reports for one Major Fund – Financing Program, which presents all conduit financing activities of the Authority.

B. Basis of Presentation

The Authority's Basic 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.

The Statement of Net Position and the Statement of Activities display the overall financial activities of the Authority. Eliminations have been made to minimize the double counting of internal activities. These statements display the *business-type activities* of the Authority that are financed in whole or in part by fees charged to external parties.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's business-type activities. Direct expenses are those that are specifically associated with a program or function. Program revenues include charges paid by the recipients of services offered by the programs and fees and contributions that may be received and are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

C. Basis of Accounting

The Authority accounts for all transactions in one enterprise fund described in Note 1A. The fund has a separate set of self-balancing accounts that comprise assets, liabilities, net position, revenues and expenses. All transactions are accounted for on the accrual basis, which means that expenses are recorded when the liability is incurred and revenues are recorded when earned, rather than when cash changes hands.

D. Revenue Recognition

Revenues comprise application fees, closing fees, housing monitoring fees, interest, and annual administration fees earned by assisting other governments to issue conduit debts on behalf of eligible borrowers. Application and closing fees are recognized in the period in which the related financing package is completed. Monitoring and administration fees are recognized as the service is provided.

E. Refundable Deposits

The California Debt Limit Allocation Committee (CDLAC) establishes procedures to be followed for multifamily housing projects in the State of California financed with tax-exempt private activity revenue bonds. Jurisdictions seeking to issue conduit debt through the Authority place a deposit to be used for debt issuance costs.

F. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

G. Estimates

The Authority's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosure of contingent liabilities to prepare these financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Actual results could differ from those estimates.

H. Statement of Cash Flows

For purposes of the statement of cash flows, FAN considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consists of the following at June 30, 2017:

	Total
Cash in Banks	$437,037
Local Agency Investment Fund	2,841,311
Investment Trust of California	1,030,170
Total Cash and Cash Equivalents	4,308,518
Installment Sale Agreement	216,000
Total Cash and Investments	$4,524,518

A. Authorized Investments by the Authority

The Authority generally follows ABAG's policies including investment policies. The Authority may make and has made other investments and the Board shall approve those investments. The Authority is allowed to invest in the following, provided the credit ratings are acceptable to the Authority. The following also identifies certain provisions of the Authority and California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	1 year	N/A	None	None
U.S. Agency Securities (a)	1 year	N/A	None	None
Bankers' Acceptances	180 days	N/A	40%	30%
Commercial Paper	180 days	A1/P1	10%	10%
Investment Agreements	On Demand	N/A	None	None
Repurchase Agreements	15 days	N/A	10%	None
Certificates of Deposit	1 year	N/A	10%	None
Negotiable Certificates of Deposit	1 year	N/A	30%	None
Money Market Mutual Funds	On Demand	Top rating category	20%	10%
California Local Agency Investment Fund	On Demand	N/A	$65 million/acct	$65 million/acct
Investment Trust of California (CalTRUST)	On Demand	N/A	None	None

(a) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC).

B. *Fair Value Hierarchy*

The following is a summary of the fair value hierarchy of the fair value of investments of the Authority as of June 30, 2017:

Investment Type	Level 2	Level 3	Exempt	Total
California Local Agency Investment Fund			$2,841,311	$2,841,311
CalTrust	$1,030,170			1,030,170
Installment Sale Agreement		$216,000		216,000
Total Investments	$1,030,170	$216,000	$2,841,311	4,087,481
Cash in banks and on hand				437,037
Total Cash and investments				$4,524,518

CalTrust is classified in Level 2 of the fair value hierarchy. CalTrust is valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Installment Sale Agreement is classified as Level 3 since it is unobservable. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

NOTE 2 – CASH AND INVESTMENTS (Continued)

C. 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 sensitivity of the fair values of the Authority's investments to market interest rate fluctuations can be analyzed by the following distribution of the Authority's investments by maturity:

	12 Months or less	13 to 60 Months	Total
Cash and Cash Equivalents:			
Cash in Banks	$437,037		$437,037
Local Agency Investment Fund	2,841,311		2,841,311
Investment Trust of California	1,030,170		1,030,170
Installment Sale Agreement (Note 2G)	82,543	$133,457	216,000
Total Cash and Investments	$4,391,061	$133,457	$4,524,518

As of year end, the weighted average maturity of the investments in the LAIF and Investment Trust of California investment pools is approximately 194 and 737 days, respectively.

D. 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 and the Installment Sale Agreement are not rated by a nationally recognized statistical rating organization.

E. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority may not be able to recover its deposits or collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its agent having a fair value of 105% to 150% of the Authority's cash on deposit. All of the Authority's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the Authority's name.

NOTE 2 – CASH AND INVESTMENTS (Continued)

F. Local Agency Investment Fund

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

G. Installment Sale Agreement

In January 2010, the Association of Bay Area Governments (ABAG) entered into an installment sale agreement with the Authority in the amount of $700,000, to finance various office improvement projects of ABAG. Principal and interest payments are paid monthly beginning February 1, 2010 until January 1, 2020. The agreement bears a variable interest at the average annual Local Agency Investment Fund's (LAIF) rate plus one percent (1.978% at June 30, 2017). The balance of the receivable as of June 30, 2017 is $216,000. During fiscal year 2016-2017, ABAG repaid $82,376 in principal and interest.

NOTE 3 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Authority's policy is to capitalize all assets with costs exceeding $5,000.

Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation expense is calculated on the straight-line method over the estimated useful lives of assets, which are as follows:

Vehicles	5 years

As of June 30, 2017, the capital assets of the Authority were fully depreciated.

NOTE 4 – CONDUIT FINANCING PROGRAMS FOR ELIGIBLE ORGANIZATIONS

In its Financing Program, the Authority assists eligible organizations in obtaining financing through the issuance of tax-exempt debt.

The underlying liability for the repayment of each of these issues rests with the organization participating in that issue, and not with the Authority, which acts only as a conduit in each issue. For that reason, the Authority has not recorded a liability for these issues, which had sponsored the following outstanding balances at June 30:

Type of Financing	2017	2016
Revenue Bonds	$2,040,685,889	$2,305,169,559
Certificates of Participation	21,271,000	22,770,000
Qualified Zone Academy Bond	1,000,000	1,000,000
Special Tax Bonds	108,245,000	136,960,000
Equipment Leases	1,289,332	1,796,380
Total	$2,172,491,221	$2,467,695,939

NOTE 5 – WINDEMERE RANCH COMMUNITY FACILITIES DISTRICT FINANCING

On June 25, 2004, the Authority issued $30,000,000 in principal amount of Community Facilities District No. 2004-02 (CFD) Bonds to fund infrastructure improvements as part of the development of residential housing in the Windemere Ranch Development Area of Southern Contra Costa County.

The CFD Bonds are repayable out of special assessments on the parcels in the District, and are secured by liens on each parcel. The Authority has no liability for the repayment of the District's assessment debt. Accordingly, the Authority has not recorded this debt in its financial statements.

At June 30, 2007, the debt had been paid off through the issuance of new debt in June 26, 2007. At that time, the Authority issued $158,105,000 in principal amount of Revenue Bond Series 2007-A and Revenue Bond Subordinate Series 2007-B (together the "Revenue Bonds"). The Authority has no liability for the repayment of the Revenue Bonds. Accordingly, the Authority has not recorded this debt in its financial statements.

In July 2014, the outstanding balance of each of the Revenue Bonds issued in June 2007 was authorized by the Authority's Executive Committee to be refinanced in fiscal year 2014-15 by the issuance of $37.5 million new Refunding Revenue Bonds (Refunding Bonds) to refund the Revenue Bond Subordinate Series 2007-B. The new debt was issued by the ABAG Financing Authority for Nonprofit Corporation in August 2014. The Authority has no obligation for the repayment of these Refunding Bonds. Accordingly, the Authority has not recorded this debt in its financial statements.

NOTE 5 – WINDEMERE RANCH COMMUNITY FACILITIES DISTRICT FINANCING (Continued)

In May 2017, the Authority's Board Executive Committee authorized issuance of $59.885 million in Refunding Revenue Bonds (the "2017 Refunding Bonds") to refund the Revenue Bond Series 2007-A to obtain interest savings. The new debt was issued by the ABAG Financing Authority for Nonprofit Corporation in June 2017. The Authority has no obligation for the repayment of these Refunding Bonds. Accordingly, the Authority has not recorded this debt in its financial statements.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

On July 1, 2017, certain members of the ABAG staff, including all members providing services to the Authority, were merged into the staff of the Metropolitan Transportation Commission (MTC) and the responsibility for services performed for the Authority by ABAG staff became the responsibility of MTC management and staff. The FAN Executive Committee continues to serve as the governing body for the Authority. Issuance of conduit debt has been suspended, in anticipation of the creation of a new joint powers authority (Advancing California Financing Authority) that will conduct all new ABAG conduit financing activity.

The Authority is subject to litigation arising in the normal course of business. In the opinion of the Authority's legal counsel there is no pending litigation which is likely to have a material adverse effect on the financial position of the Authority.