ABAG
FINANCE AUTHORITY
FOR NONPROFIT CORPORATIONS

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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For the Year Ended June 30, 2014

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors
ABAG Finance Authority for Nonprofit Corporations
Oakland, California

Report on Financial Statements

We have audited the accompanying financial statements of the the business-type activities of the ABAG Finance Authority for Nonprofit Corporations (Authority) as of and for the year ended June 30, 2014, 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 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. 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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Basis for Modified Opinion

As discussed in Note 6 to the financial statements, subsequent to year end, Management discovered that a key employee had embezzled funds from an unrelated entity. Due to the ongoing investigations to determine the effects, if any on the Authority's financial statements we are unable to complete our audit of the financial statements at this time, but plan to reissue an opinion after additional work can be completed.

Modified Opinions

In our opinion, except for the possible effects of the matter described in the Basis for Modified Opinion paragraph, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2014 that did not have a material affect on the financial statements:

Statement 65 – *Items Previously Reported as Assets and Liabilities*.

Statement 67 – *Financial Reporting for Pension Plans*.

Statement 70 – *Accounting and Reporting for Non-exchange Financial Guarantees.*

The emphasis of this matter does not constitute modifications to our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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
March 20, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The ABAG Finance Authority for Nonprofit Corporations (Authority) has issued the financial reports for fiscal year ending June 30, 2014 based on the provisions of the Government Accounting Standards Board Statement 34, "Basic Financial Statement and Management's Discussion & Analysis—for State and Local Governments," (GASB 34). One of the most significant requirements of GASB 34 is for government entities to prepare financial reports using the full accrual basis of accounting. Since the Authority has already been using this method of accounting, changes in its financial reports are primarily in format of presentation.

GASB 34 requires the Authority to provide an overview of financial activities in the fiscal year and it should be read in conjunction with the accompanying financial statements.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements required under GASB 34 include:

1. Statement of Net 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.

ENTERPRISE PERFORMANCE & MAJOR PROGRAM INITIATIVES IN FY 2013-2014

Financing Program

The continuing increase in activity of other conduit tax-exempt bond issuers in the California Public Finance Industry has taken away market share from the Authority. The Authority experienced a relatively low level of conduit financing activity during FY 2014 – a decline from earlier periods. The Authority continues to present convenient, cost effective, and secure means to meet the broad array of capital financing needs of public agencies and their nonprofit partners; however, the focus of the Authority's activity has moved somewhat to more specialized financing activity in response to needs expressed by its Members, the Association of Bay Area Governments and by members of the Nonprofit industries served by the Authority.

Since April of 1990, the Authority has offered its Financing Program to assist both public jurisdictions and eligible entities in those jurisdictions in obtaining financing through the delivery of tax-exempt securities. Both public agencies and eligible entities with projects located within the jurisdictions of California city and county Members of the Authority may request assistance from the Authority in obtaining conduit financing. Eligible entities include nonprofit corporations organized under Internal Revenue Code Section 501(a), and other borrowers which operate for the benefit of the public. All conduit financings delivered through the Authority's Financing Program are obligations of the borrowing entities and are not obligations of the Authority. As a result, the financing obligations are not recorded in the Authority's financing statements. As of June 30, 2014, the Authority had delivered $7.8 billion in such conduit financing. *Please see Note 4 for current outstanding amounts of each type of conduit financing issued through the Authority.*

FISCAL YEAR 2014 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Authority's total net position was $4.1 million at June 30, 2014. At June 30, 2013, the total net position was $4.2 million.

- The Authority's total revenue, including program and general revenues, were $1.3 million in FY 2014, while total expenses were $1.4 million. These expenses included both labor and other costs directly associated with Authority activities and labor and other costs for indirect support of a range of activities of the Association of Bay Area Governments related to the work of the Authority.

- General revenues were $15 thousand for the Financing Program, almost wholly derived from interest income.

OUTLOOK FOR FY 2015

The Authority will continue to provide efficient and economical financing for affordable multi-family housing, independent schools, hospitals, healthcare providers, and other public sector entities through its various programs specially designed for local government jurisdictions and other borrowers in the municipal capital market. The Authority also provides consultation in the areas of its municipal finance expertise to its Members jurisdictions and to other public agencies and nonprofit organizations.

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 ABAG Finance Department, at 101 Eighth Street, Oakland, California 94607.

ABAG
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Financing Program
CURRENT ASSETS	
Cash and Cash Equivalents (Note 2):	$3,729,343
Receivables:	
Other	303,775
Interest	1,577
Total Current Assets	4,034,695
NONCURRENT ASSETS	
Other Receivables	196,506
Installment Sale Agreement (Note 2F)	435,954
Capital Assets, net of accumulated depreciation (Note 3)	4,462
Total Noncurrent Assets	636,922
Total Assets	4,671,617
LIABILITIES	
Accounts Payable	315,757
Refundable Deposits	291,303
Total Current Liabilities	607,060
NET POSITION	
Net Investment in Capital Assets	4,462
Unrestricted	4,060,095
Total Net Position	$4,064,557

See accompanying notes to basic financial statements

ABAG
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Financing Program
PROGRAM REVENUES	
Financial Service Fees	$1,230,151
Lease Program Fee	5,253
Total Program Revenues	1,235,404
PROGRAM EXPENSES	
Consultant Services	1,379,704
Depreciation Expense	4,461
Total Program Expenses	1,384,165
Program Income (Loss)	(148,761)
GENERAL REVENUES	
Interest Income	14,711
Total General Revenues	14,711
CHANGE IN NET POSITION	(134,050)
NET POSITION - BEGINNING	4,198,607
NET POSITION - ENDING	$4,064,557

See accompanying notes to basic financial statements

ABAG
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Financing Program
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Fees	$1,911,050
Payment of Consultant Costs	(1,134,676)
Net Cash Flows from Operating Activities	776,374
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	14,505
Installment Sale Agreement Collections	64,969
Net Cash Flows from Investing Activities	79,474
Net Cash Flows	855,848
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	2,873,495
CASH AND CASH EQUIVALENTS- END OF YEAR	$3,729,343
RECONCILIATION OF OPERATING INCOME (LOSS) NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Income (Loss)	($148,761)
Change in Assets and Liabilities:	
Other Receivables	658,646
Accounts Payable	249,028
Unearned Revenue	(4,000)
Refundable Deposits	17,000
Depreciation Expense	4,461
Net cash flows from operating activities	$776,374

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 non-profit entities and other borrowers in obtaining tax-exempt financing. Eligible entities include non-profit 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 $1,042,330 for these services and $155,946 for contract services in the fiscal year ended June 30, 2014.

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 Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Standards require that the financial statements described below be presented.

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. 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.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2014:

Cash in Banks	$562,939
Local Agency Investment Fund	2,163,716
Investment Trust of California	1,002,688
Total Cash and Cash Equivalents	3,729,343
Installment Sale Agreement	435,954
Total Cash and Investments	$4,165,297

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.

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	$50 million/ account	$50 million/ account
Investment Trust of California	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).

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. 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	$562,939		$562,939
Local Agency Investment Fund	2,163,716		2,163,716
Investment Trust of California	1,002,688		1,002,688
Installment Sale Agreement (Note 2F)	68,976	$366,978	435,954
Total Cash and Investments	$3,798,319	$366,978	$4,165,297

As of year end, the weighted average maturity of the investments in the LAIF and Investment Trust of California investment pools is approximately 232 and 770 days, respectively.

C. 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.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the 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)

E. 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.

F. 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 (1.228% at June 30, 2014). The balance of the receivable as of June 30, 2014 is $435,954. During fiscal year 2013-2014, ABAG repaid $71,120 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, 2014, the ending balance of the capital asset is $4,462, which is net of accumulated depreciation of 17,847.

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	2014	2013
Revenue Bonds	$2,534,270,100	$2,723,000,681
Certificates of Participation	31,775,000	32,430,000
Qualified Zone Academy Bond	1,000,000	1,000,000
Special Tax Bonds	190,799,340	19,445,000
Equipment Leases	1,562,176	5,124,000
Total	$2,759,406,616	$2,780,999,681

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 August 2014, the outstanding balance of each of the Revenue Bonds issued in June 2007 was authorized by the Authority's Board to be refinanced in fiscal year 2014-15 by the issuance of $37.5 million new Refunding Revenue Bonds (Refunding Bonds). The Authority has no obligation for the repayment of these new Refunding Bonds, therefore it will not record this debt in its financial statements when issued.

NOTE 6 – SUBSEQUENT EVENT

In January 2015, it was discovered that a key employee at the Authority had been accused of embezzling funds from a different public agency. At the time of this report, investigations were underway to determine if any of the Authority's funds had been embezzled. These investigations are not yet complete.

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