

**ABAG
FINANCE AUTHORITY
FOR NONPROFIT CORPORATIONS
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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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, 2015, 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business activities of the Authority as of June 30, 2015 and the changes 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.

Emphasis of a Matter

As discussed in Note 6, in fiscal year 2015 a key employee at the Authority was accused of embezzling funds from a public agency. Upon further investigation, it was determined that more than \$3.9 million had been misappropriated over a three year period. Management has stated subsequent to the balance sheet date full restitution has been made to the public agencies.

The emphasis of this matter does not constitute a modification 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 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The ABAG Finance Authority for Nonprofit Corporations (Authority) has issued the financial report for fiscal year ending June 30, 2015 based on the provisions of the Governmental Accounting Standards Board Statement 34, "Basic Financial Statement and Management's Discussion & Analysis—for State and Local Governments," (GASB 34).

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 from 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 2014-2015

Financing Program

In March 2015, new conduit bond issuances and other nonprofit financing activity was disrupted by the unanticipated resignation of the Authority's Secretary (ABAG's Director of Financial Services), following the disclosure of an embezzlement of funds belonging to the San Francisco One Rincon Hill residential project and later a disclosure of an embezzlement of funds belonging to the Windemere Ranch projects in Contra Costa County. It was determined that the former Authority's Secretary was responsible for the embezzlements of funds and the Authority received full restoration of the embezzled funds. An Interim Director was appointed and the ongoing administrative functions and responsibilities of the Authority were performed without interruption. New financing activity completed during the year is listed on the following page.

Project Name	Amount Authorized	Amount Issued
St. Helena Montessorri School	\$ 6,000,000	\$ 6,000,000
On Lok Senior Services 2014	30,000,000	25,530,000
Windemere 2014 Refunding	37,500,000	31,805,000
Presidio Knoll School	13,500,000	13,500,000
Sonoma Country Day School	18,000,000	17,000,000
Drew School Series 2015	2,160,000	2,160,000
Institute of Defense Analyses	11,945,000	11,945,000
Total	\$ 119,105,000	\$ 107,940,000

Since April of 1990, the Authority has offered its Financing Program to assist both public jurisdictions and eligible entities in those jurisdictions seeking to obtain conduit financing through the delivery of tax-exempt securities. Public agencies and eligible entities, who are also Members of the Authority, may request assistance from the Authority in obtaining conduit bond financing for projects located within California. 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 financial statements. As of June 30, 2015, the Authority had delivered approximately \$7.9 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 2015 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Authority's total net position was \$3.8 million at June 30, 2015. At June 30, 2014, the total net position was \$4.1 million.
- The Authority's total revenue, including program and general revenues, were \$1.4 million in FY 2015, while total expenses were \$1.7 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 \$17 thousand for the Financing Program, almost wholly derived from interest income.

OUTLOOK FOR FY 2016

Fiscal year 2015-16 will be a year in which the Authority's principal activities will revolve around settlement of matters related to the embezzlements disclosed in fiscal year 2014-15, including the restoration of embezzled funds to the affected accounts, responding to inquiries from the State Senate Governance and Finance Committee, and completion of an internal investigation and forensic review commissioned by the Authority's Executive Committee of the Board of Directors. The Authority will also continue to provide consultation in the areas of its municipal finance expertise to its Members jurisdictions and to other public agencies and nonprofit organizations.

Our expectation is that by the end of the fiscal year, improved internal accounting and administrative controls will be fully implemented and that new staff, including an acting Director of Financial Services, will be appointed. This will allow the Authority to fully return to its core mission of providing 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.

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, 2015

	Financing Program
CURRENT ASSETS	
Cash and Cash Equivalents (Note 2):	\$3,365,578
Receivables:	
Other	475,475
Interest	2,169
Total Current Assets	3,843,222
NONCURRENT ASSETS	
Other Receivables	191,018
Installment Sale Agreement (Note 2F)	372,885
Total Noncurrent Assets	563,903
Total Assets	4,407,125
LIABILITIES	
Accounts Payable	356,287
Refundable Deposits	291,303
Total Current Liabilities	647,590
NET POSITION	
Unrestricted	3,759,535
Total Net Position	\$3,759,535

See accompanying notes to basic financial statements

ABAG
 FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Financing Program</u>
PROGRAM REVENUES	
Administration Fees	\$1,161,990
Bond Issuance Fees	196,697
Application Fees	4,000
Lease Program Fee	<u>2,300</u>
Total Program Revenues	<u>1,364,987</u>
PROGRAM EXPENSES	
Consultant Services	1,682,182
Depreciation Expense	<u>4,462</u>
Total Program Expenses	<u>1,686,644</u>
Program Income (Deficit)	<u>(321,657)</u>
GENERAL REVENUES	
Interest Income	<u>16,635</u>
Total General Revenues	<u>16,635</u>
CHANGE IN NET POSITION	(305,022)
NET POSITION - BEGINNING	<u>4,064,557</u>
NET POSITION - ENDING	<u><u>\$3,759,535</u></u>

See accompanying notes to basic financial statements

ABAG
 FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Financing Program</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Fees	\$1,198,775
Payment of Consultant Costs	<u>(1,641,652)</u>
Net Cash Flows from Operating Activities	<u>(442,877)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	16,043
Installment Sale Agreement Collections	<u>63,069</u>
Net Cash Flows from Investing Activities	<u>79,112</u>
Net Cash Flows	(363,765)
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	<u>3,729,343</u>
CASH AND CASH EQUIVALENTS- END OF YEAR	<u><u>\$3,365,578</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS)	
NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Income (Loss)	(\$321,657)
Change in Assets and Liabilities:	
Other Receivables	(166,212)
Accounts Payable	40,530
Depreciation Expense	<u>4,462</u>
Net Cash Flows from Operating Activities	<u><u>(\$442,877)</u></u>

See accompanying notes to basic financial statements

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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 \$1,495,609 for these services and \$473,387 for contract services in the fiscal year ended June 30, 2015.

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.

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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.

G. *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.

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consists of the following at June 30, 2015:

	Total
Cash in Banks	\$437,836
Local Agency Investment Fund	1,918,139
Investment Trust of California	1,009,603
Total Cash and Cash Equivalents	3,365,578
Installment Sale Agreement	372,885
Total Cash and Investments	\$3,738,463

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	\$40 million/acct	\$40 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).

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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	\$437,836		\$437,836
Local Agency Investment Fund	1,918,139		1,918,139
Investment Trust of California	1,009,603		1,009,603
Installment Sale Agreement (Note 2F)	79,138	\$293,747	372,885
Total Cash and Investments	\$3,444,716	\$293,747	\$3,738,463

As of year end, the weighted average maturity of the investments in the LAIF and Investment Trust of California investment pools is approximately 239 and 646 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.

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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 (1.299% at June 30, 2014). The balance of the receivable as of June 30, 2015 is \$372,885. During fiscal year 2014-2015, ABAG repaid \$63,069 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, 2015, the capital assets of the Authority were fully depreciated and the ending balance of the capital assets is \$0.

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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	2015	2014
Revenue Bonds	\$2,469,674,888	\$2,534,270,100
Certificates of Participation	29,850,000	31,775,000
Qualified Zone Academy Bond	1,000,000	1,000,000
Special Tax Bonds	19,005,000	190,799,340
Equipment Leases	2,909,617	1,562,176
Total	<u>\$2,522,439,505</u>	<u>\$2,759,406,616</u>

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 Board to be refinanced in fiscal year 2014-15 by the issuance of \$37.5 million new Refunding Revenue Bonds (Refunding Bonds). 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.

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 6 – COMMITMENTS AND CONTINGENCIES

In January 2015, a conduit bond issuer discovered that a key employee of the Authority had embezzled funds from its accounts. FAN terminated the employee and began an immediate investigation which revealed that the former employee had misappropriated \$1.3 million in funds. During fiscal 2015 the former employee repaid that amount to the issuer.

Also during fiscal 2015, ABAG and FAN management began an internal investigation and arranged for a forensic audit to ascertain whether any additional embezzlement had occurred from July 1, 2009 through January 31, 2015.

As of the date of this report, the investigation and forensic audit have been completed and indicate that a total of \$3.9 million had been embezzled by the former employee. Through seizures of assets and resources from the former employee, \$3.5 million has been recovered and turned over as restitution to the issuer. In addition, ABAG's insurer has remitted the remaining \$400,000 in restitution under a key employee policy.

The internal investigation and forensic audit report indicate the fraud affected the accounts of the conduit issuer but not those of FAN or ABAG; and therefore the above matters do not have a material effect on FAN's financial statements and have not been recorded herein.



HELPING OUR CLIENTS SUCCEED

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