ASSOCIATION OF BAY AREA GOVERNMENTS
Representing City and County Governments of the San Francisco Bay Area

ABAG

AGENDA

FINANCE AND PERSONNEL COMMITTEE

Thursday, January 21, 2016, 5:00 PM

Location:
Joseph P. Bort MetroCenter
Association of Bay Area Governments
101 8th Street, Conference Room B
Oakland, California

The ABAG Finance and Personnel Committee may take action on any item on this agenda.

Agenda and attachments available at abag.ca.gov

For information, contact Charles Adams, Interim Finance Director, at (510) 464-7906.

1. CALL TO ORDER

2. PUBLIC COMMENT

Information.

3. ELECTION OF COMMITTEE CHAIR AND VICE-CHAIR; POTENTIAL APPOINTMENT OF REPRESENTATIVE TO ADMINISTRATIVE COMMITTEE

ACTION.

4. APPROVAL OF MINUTES OF NOVEMBER 19, 2015

ACTION.

Minutes of November 19, 2015 meeting attached.

5. PRESENTATION AND REVIEW OF FINANCIAL REPORT FOR NOVEMBER 2015

Information/ACTION.

Financial Report for November 2015 is attached.

6. AUDITED FINANCIAL REPORTS FOR ABAG - JUNE 30, 2015

Information/ACTION.

The Basic Financial Statements, Single Audit Report, and the Memorandum on Internal Control and Required Communications are attached. The auditor will attend the meeting.

7. REVIEW OF PROPOSED WORK PROGRAM, BUDGET AND MEMBERSHIP DUES - FY 2016-17

ACTION.

Link to the draft Budget and Workplan for FY 2016-17 will be e-mailed to the Committee along with Summary Budget numbers and the breakdown of proposed dues for Cities and Counties.

8. ORAL REPORT ON PAYMENT OF MEMBERSHIP DUES FY 15-16

Information.

9. ORAL REPORT ON ORRICK AND FTI RECOMMENDATIONS REGARDING ABAG-FAN INTERNAL CONTROL PROCESSES

Information.

10. ORAL REPORT ON LINE OF CREDIT RENEWAL WITH BANK OF THE WEST

Information.

11. ORAL REPORT ON PROCESS FOR PUBLIC EMPLOYEE PERFORMANCE EVALUATION: LEGAL COUNSEL

Information/ACTION.

12. CLOSED SESSION

A. Public Employee Performance Evaluation

Title: Executive Director

13. ADJOURNMENT

The next meeting of the Finance and Personnel Committee will be on Thursday, March 17, 2016.

Submitted:

Charles Adams, Interim Finance Director Date: January 6, 2016

ABAG FINANCE AND PERSONNEL COMMITTEE

Summary Minutes

November 19, 2015

Members Present	**Jurisdiction**
Mayor Bill Harrison	City of Fremont
Supervisor Karen Mitchoff	County of Contra Costa
Councilmember Desley Brooks	City of Oakland
Supervisor Scott Haggerty	County of Alameda
Supervisor Mark Luce	County of Napa
Councilmember Julie Pierce	City of Clayton
Supervisor David Rabbitt	County of Sonoma

Members Absent

Supervisor David Cortese	County of Santa Clara
Supervisor John Gioia	County of Contra Costa
Supervisor Dave Pine	County of San Mateo

Officers and Staff Present

Ezra Rapport, Executive Director
Bradford Paul, Asst. Exec. Director
Kenneth Moy, Legal Counsel
Charles Adams, Interim Finance Director
Brian Kirking, HR and IT Director
Susan Hsieh, Asst. Finance Director

Guests

Mayor Pro Tem Pat Eklund	City of Novato
Ken Bukowski, Videographer	

1. The meeting was called to order by Mayor Harrison, Committee Chair, at 5:00 pm.

2. There was no public comment.

3. Summary Minutes of the September 17, 2015 meeting were approved. /M/ Mitchoff/S/Pierce/C/approved unanimously.

4. Mr. Adams presented the financial reports for September 2015. He reported that ABAG is projected to end the year with a surplus. He also reported that ABAG has a positive fund balance at September 30, 2015 excluding the pension adjustment, which was recorded in FY 14-15 due to the implementation of new accounting

rule (GASB 68). The accumulated operations surplus, pension adjustment, and restricted fund balance are presented in the Table of Financial Report Data Elements.

He advised the Committee that BayREN has distributed a significant amount of incentive rebates to the public. These expenditures will be presented as pass-through expenditures in the audited financial statements. The new presentation will help audience easily identify ABAG's operating expenditures and pass-through expenditures. /M/Brooks/S/Rabbitt/C/acceptance of the report unanimously.

5. Mr. Adams reported on the conditions imposed by MTC on the six-month interagency agreement. He advised the Committee that we have provided MTC all the requested information and had meetings with them, even though the conditions imposed by them are not appropriate. There were no outstanding issues but MTC still included a revised version of a condition in the second amendment, but they have not requested actions from us so far.

   Mr. Paul reported that MTC had indicated that they will pay us for the July and August 2015 invoices soon. The September 2015 invoice will be prepared using a new template that will be provided by MTC.

6. Mr. Adams reported on the status of line of credit (LOC) renewal and presented the resolution for the deed of trust on ABAG's condominium interest (collateral for the LOC). He indicated the renewal may be impacted if ABAG will exit in a different form of organization or the funding from MTC will not come through in the future. /M/Mitchoff/S/Luce/C/acceptance of the report unanimously.

7. Mr. Adams reported that four members still haven't paid the membership dues for FY 15-16 ($42K in total). Past due reminders were sent out to those members. Staff will report the unpaid dues again at the next meeting.

8. There was no reportable action from Closed Session.

9. Meeting was adjourned at 6:07 pm.

Submitted: Susan Hsieh, Assistant Finance Director

To: Finance and Personnel Committee

Date: January 11, 2016

From: Charlie Adams
Interim Finance Director

Re: Financial Reports
November 2015

The following are highlights of the financial reports for November 2015.

Overall Summary

Revenues exceeded expenses by $74 thousand for the five months ended November 30, 2015. A $460 thousand surplus is projected at year end, and this compares favorably with the $50 thousand surplus projected in the adopted budget for fiscal year 2015-16. Please refer to the **Table of Financial Report Data Elements** for fiscal year budget, year-to-date actual and projected fiscal year numbers.

Cash on Hand

The cash balance was $8.3 million at the end of September, including $2.2 million deposited in the Local Agency Investment Fund (LAIF). As shown in Figure 1 the actual monthly cash balances for the first five months of fiscal year 2015-16, and the projected balance for the year end are within our normal range of $6.0 to $9.0 million. The cash balance is projected to be approximately $6.5 million at the end of the fiscal year.

Receivables

Receivables from grant and service programs amounted to $5.2 million at the end of November. Receivable over 90 days past due were $118 thousand. Included in the over 90 days past due receivables is $103 thousand from the Department of Boating and Waterways. Subsequent to November 30th, $81 thousand has been received. All receivables are believed to be collectible.

Outstanding city and county 2015-16 ABAG membership dues at November 30 were $42,455. Currently the member receivable is $33,446, due from two cities.

Revenues and Expenses

As of November 30, 2015, total revenue amounted to $12.9 million, which is 41 percent, of the projected revenue for the year of $31.4 million. Total expenses were also $12.9 million, which is 41 percent, of the projected expenses for the year of $31.0 million.

Figure 3 presents a graphic comparison of the current month of November, the five
Month year-to-date actual, and fiscal year projected revenues and expenses. The relationship of revenues exceeding expenses is consistent for all three periods shown.

Figures 4 and 5 show year-to-date revenues and expenses by major categories. Grants revenue is 76% of total revenue, unchanged from the prior fiscal year. Pass-through and Consultant expense are 58% of total expenses, compared to 56% for the prior fiscal year. The increasing percentages for these categories of revenues and expenses are caused by the growth of the

BayREN project, which has provided ABAG revenue in excess of $32 million since its inception in March 2013.

Net Position/Fund Equity

Total fund equity was negative $8.0 million as of November 30, 2015. In compliance with the new accounting pronouncement, GASB 68, beginning with the June 30, 2015 audited financial statements, we have recorded the ABAG accumulated unfunded pension obligation as a liability and reduction of fund equity. For internal financial statement purposes, we have elected to separately track the fund equity for pension and for operations. Thus the November fund equity for pension is presented as a negative $12.3 million, and the accumulated fund equity from operations is presented as a positive $2.6 million.

The restricted fund equity consists of capital, self-insurance, building maintenance and reserves. Figure 6 is a graphic presentation of actual and projected: unrestricted, restricted, and total net equity for the current fiscal year. In reading this chart, it is important to recognize that the zero axis is in at the middle of the chart, not the bottom, as has been the case in prior year's charts included in reports to the committee.

Indirect Overhead Rate

The Agency's actual indirect cost (overhead) rate through November 2015 was 45.55%, which was .6 percentage points above the budget target of 44.95 percent. This variance from the budget is not unexpected at this point in the fiscal year, and we anticipate that the final actual overhead cost for the year will remain in line with the budget target for the full fiscal year. Figure 7 shows a comparison between the actual indirect cost rate through November 30, 2015 and the projected rate for the year.

Financial Information by Program

The **Report by Program of Net Surplus/(Deficit)** is included after the charts. This report presents revenue and expense information by program. It provides an overview of budgeted and year-to-date revenue and expense data for major programs such as the Planning Services, San Francisco Estuary Partnership, Bay Trail and POWER/Energy. None of the programs listed on this chart is significantly out of line with its budget at this time. The chart includes a projection of expenses for the year of $34.2 million; this is up $4.4 million from the September 30 projection. The majority of this 14% increase occurred in Integrated Regional Water Management Program, a component of the SFEP, and the BayREN energy conservation rebate program, which is administered by ABAG POWER.

Financial Outlook

The projection for fiscal year 2015-16 is for a surplus of revenues over expenses. Cautionary reservations for the full year's results, pending possible deleterious actions by MTC under conditions attached to the extension of the Interagency Agreement, were made by staff in its November report. MTC has not attempted to invoke these conditions to date. Management remains confident that all costs billed are allowable, and that any challenges by MTC would not be sustained under an objective review by agencies providing funds to MTC.

Association of Bay Area Governments
Table of Financial Report Data Elements
(thousands of dollars)

For the Month Ended November 2015

Projected percentage of budget is 42%.

Description	Adopted Budget	Projected Fiscal Year Budget	Year-To-Date Actual	% of Projected Fiscal Year Budget
ASSETS				
Cash		6,500	8,298	
Receivables		8,000	8,299	
REVENUES				
Membership Dues	1,897	1,897	790	42%
Grants	19,450	23,727	9,858	42%
Charges for Services and Other	5,360	5,810	2,249	39%
Total Revenues	**26,707**	**31,434**	**12,897**	**41%**
EXPENSES				
Salaries and Benefits	11,588	10,900	4,503	41%
Pass-through and Consultant Expenses	12,780	18,046	7,475	41%
Other Expenses	2,289	2,028	845	42%
Total Expenses	**26,657**	**30,974**	**12,823**	**41%**
Change in Net Position	50	460	74	16%
Beginning Net Position	(8,095)	(8,095)	(8,095)	100%
Ending Net Position	(8,045)	(7,635)	(8,021)	105%
NET POSITION BREAKDOWNS				
Unrestricted - Accumulated Operations Surplus	2,551	2,511	2,625	105%
Unrestricted - Pension Adjustment - June 30, 2015	(12,253)	(12,253)	(12,253)	100%
Restricted - Tenant Improvements	800	1,250	800	64%
Restricted - Other	857	857	807	94%
Total Net Position	(8,045)	(7,635)	(8,021)	105%
INDIRECT OVERHEAD				
Overhead Rate	44.95%	45.49%	45.55%	100%

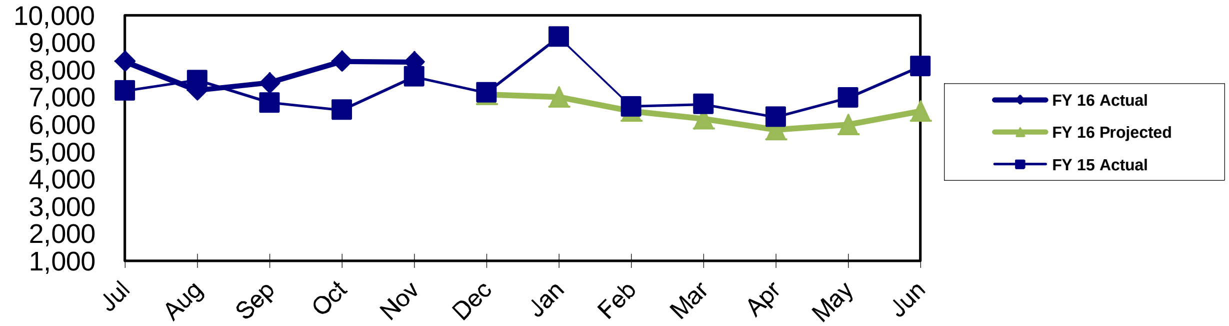
Item 5

ABAG Financial Indices

Cash on Hand FY 15-FY 16 ($'000)												
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 16 Actual	8,316	7,258	7,533	8,312	8,298							
FY 16 Projected						7,100	7,000	6,500	6,200	5,800	6,000	6,500
FY 15 Actual	7,243	7,620	6,801	6,529	7,751	7,161	9,213	6,661	6,745	6,270	6,979	8,128

Represents the sum total of cash deposited at our bank and the Local Agency Investment Fund. This chart shows fluctuation patterns of cash on hand for the current and prior fiscal years.

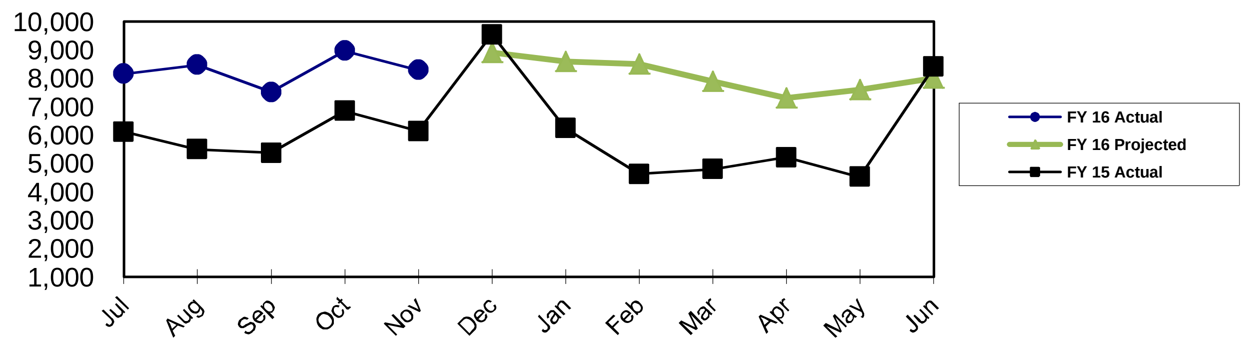
Figure 1--*Cash on Hand--FY 15 and FY 16 ($'000)*



Accounts Receivable FY 15-FY 16 ($'000)												
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 16 Actual	8,163	8,471	7,515	8,974	8,299							
FY 16 Projected						8,900	8,600	8,500	7,900	7,300	7,600	8,000
FY 15 Actual	6,116	5,495	5,377	6,846	6,141	9,544	6,239	4,625	4,802	5,213	4,526	8,404

Accounts receivable include receivables generated by grants and service programs over two fiscal years. Reflects the reasonableness of our receivable levels.

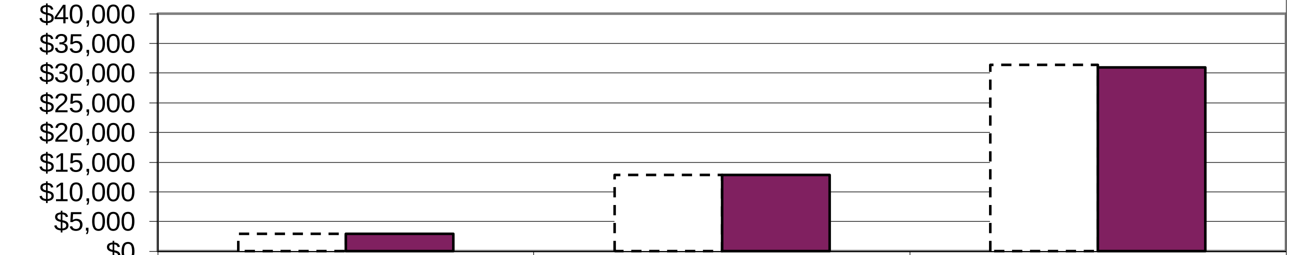
Figure 2--*Accounts Receivable--FY 15 and FY 16 ($'000)*



ABAG Financial Indices

Presents a comparison of current month actual, year-to-date actual, and adopted/projected revenues and expenses.

Figure 3--*Revenues and Expenses ($'000)*



	Current Month Actual	YTD Actual	Projected
Revenues	$2,905	$12,897	$31,434
Expenses	$2,901	$12,823	$30,974
Surplus/(Deficit)	$4	$74	$460

Shows year-to-date revenues by major category including membership dues, grants, and charges for services and other.

Shows year-to-date expenses by major category including salaries and benefits, pass-through and consultant expenses, and other expenses.

Figure 4--*Year-to-date Revenues by Category ($'000)*

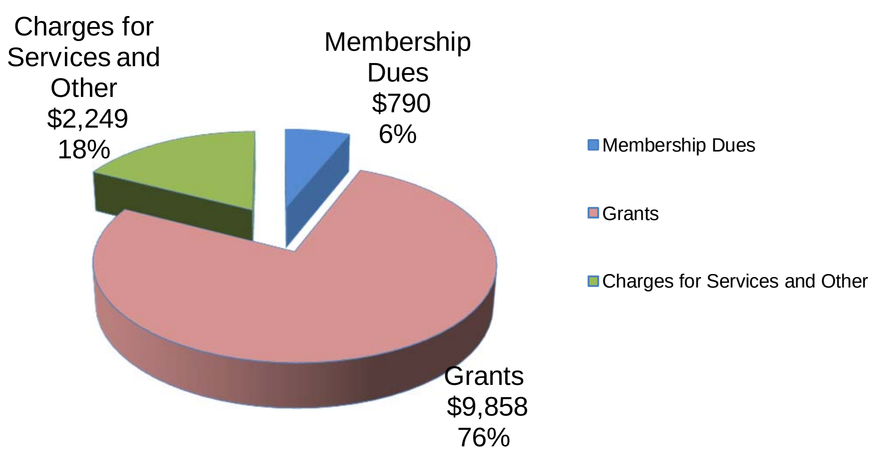
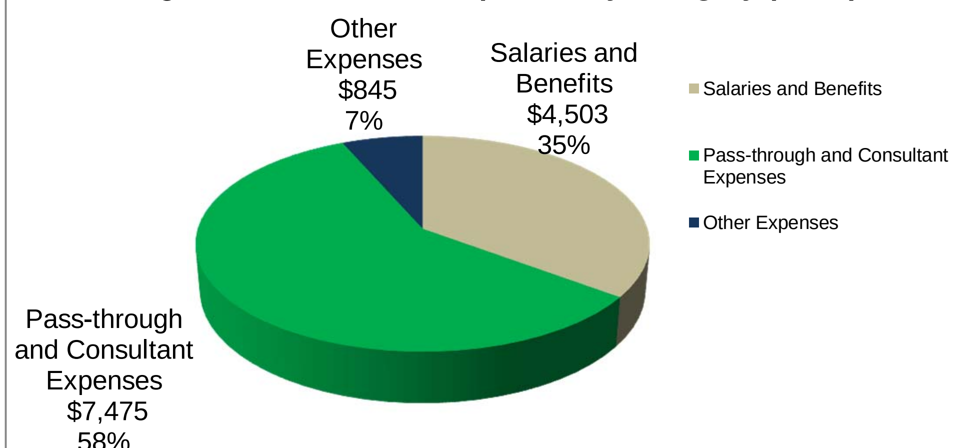
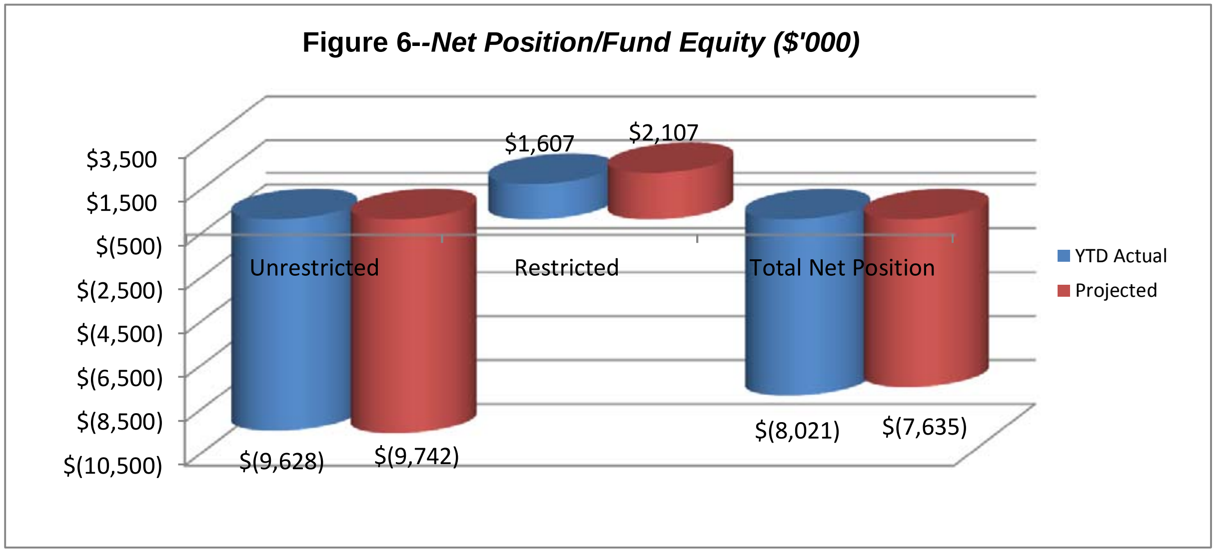


Figure 5--*Year-to-date Expenses by Category ($'000)*

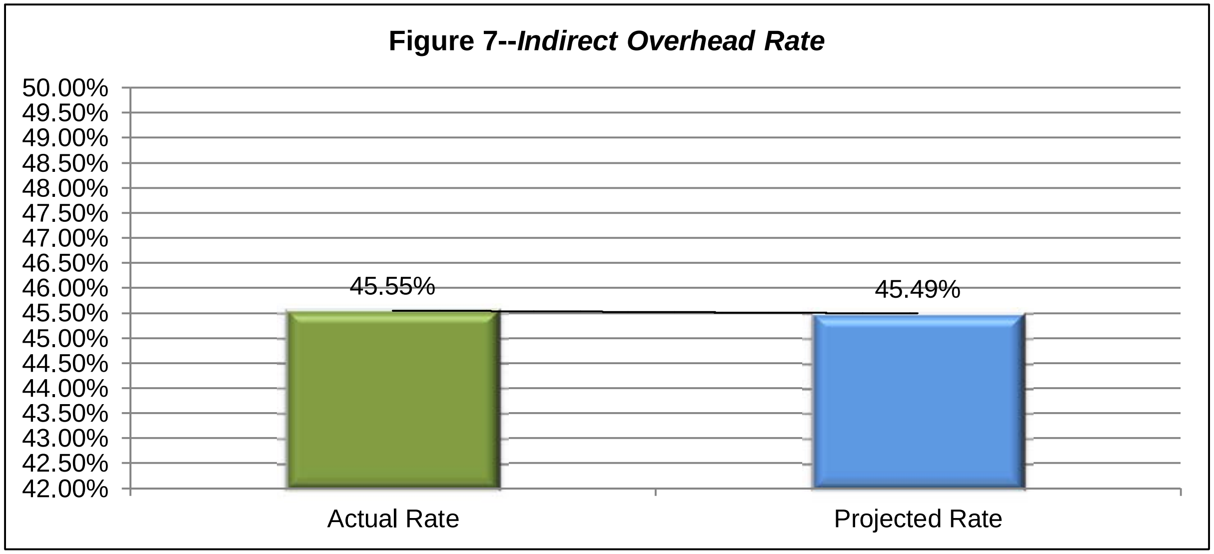


ABAG Financial Indices

Presents actual and adopted/projected general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building improvements, building maintenance, self-insurance, capital and contingency reserve. These restricted equities represent the Association's equities set aside for specific purposes. Total equity is the sum total of general and restricted equities.



Shows a comparison between the actual indirect cost rate and the approved/projected rate. The approved indirect cost rate is computed by dividing total estimated overhead expenses by total projected direct labor cost for a fiscal year. This rate is used as a standard overhead cost rate to allocate indirect costs to all projects. This process is performed in accordance with an indirect cost plan, which is prepared annually in accordance with federal guidelines.



Association of Bay Area Governments

Report by Program of Net Surplus/(Deficit)
Through November 2015 / 42% of Year Elapsed

Program Description	Projected Fiscal Year Budget Expenses	Year-To-Date Revenues	Year-To-Date Expenses	YTD Surplus/ (Deficit)	% of Expense Budget	Comments
	A	B	C	D = B - C	E = C/A	
Planning Services	3,806,327	1,690,136	1,690,227	(90)	**44%**	
San Francisco Estuary Partnership	6,602,138	2,200,713	2,251,591	(50,878)	**34%**	**Expect expenses to increase as subrecipients bill to the Integrated Regional Water Management Plan projects. The operating deficit resulted from the timing of recognizing project revenues. The SFEP program has a positive fund balance as of November 30, 2015.**
Disaster Recovery	946,761	248,650	248,650	-	**26%**	**Expect expenses to increase with a $860K FEMA grant awarded in the second quarter.**
Bay Trail	1,141,205	451,727	451,727	-	**40%**	
Green Business	92,487	38,536	38,536	-	**42%**	
Training Center, Web Hosting and Publications	540,000	293,452	230,496	62,956	**43%**	
POWER/Energy	11,939,241	5,567,212	5,586,627	(19,415)	**47%**	**The operating deficit is caused by the expenditure of excess revenues from prior years. These expenditures are used to identify new funding opportunities and to support efforts that benefit members and local governments. The energy program has a positive fund balance as of November 30, 2015.**
Finance Authority	1,104,696	532,232	526,803	5,429	**48%**	
Plan Corporation - Property & Liability Insurance Pool	2,458,589	988,884	988,884	-	**40%**	
SHARP - Worker's Comp Pool	150,000	29,149	29,149	-	**19%**	**Expect expenses to increase throughout the year, as members claim reimbursements for loss prevention program expenditures.**
Fiscal Agent Services	140,988	75,412	72,123	3,289	**51%**	**Higher than budgeted expenses is primarily attributed to staffing time spent on the year-end close and annual audit in the first quarter.**
Communications/Legislative	560,000	224,073	224,073	-	**40%**	

Association of Bay Area Governments

Report by Program of Net Surplus/(Deficit)
Through November 2015 / 42% of Year Elapsed

Program Description	Projected Fiscal Year Budget Expenses		Year-To-Date Revenues	Year-To-Date Expenses	YTD Surplus/ (Deficit)		% of Expense Budget	Comments
	A		B	C	D = B - C		E = C/A	
Agency Administration	1,501,308		555,753	458,625	97,128		**31%**	**Expect expenses to increase in the second half of the fsical year due to the ABAG-MTC merger study ($138K) and budgeted contribution to BARC ($31K).**
Payroll Clearing	(10,000)		-	7,361	(7,361)		**-74%**	**Expect the payroll clearing account to end the year with a small deficit.**
Central Overhead	3,256,725		1,289,121	1,306,218	(17,098)		**40%**	**Expect central overhead expense to slightly exceed the budget due to under recovery from overhead revenue (couple budgeted positions have not bee filled). The excess expense will be carried forward and recovered in future year.**
Totals	**34,230,466**		**14,185,050**	**14,111,090**	**73,960**		**41%**	

To:	Finance and Personnel Committee	Date:	January 14, 2016
From:	Charlie Adams Interim Finance Director	Re:	Audit Reports June 30, 2015

The following are highlights of the ABAG audited financial statements and Auditor's Communications to Management

Financial Results

The previously reported financial health of the Association is confirmed in the Statement of Net Position. However, implementation of new financial reporting standards has made this statement more complex and difficult to interpret. Two new account classifications have been added – Deferred Outflows and Deferred Inflows. These accounts relate to pension activities and have little meaning unless dissolution of the Association is contemplated.

Also new to the Statement of Net Position is the non-current liability, Collective Net Pension Liability, which is $11,357,673. This number is alarming in appearance, but it is not a new liability, it is just being shown on the face of the financial statement for the first time. The recording of this pension liability has caused the net position of the Association to swing from a positive $3,279,017 to a negative $7,719,127.

Contrary to financial picture depicted by the addition of previously unreported pension obligations, the Association finished the fiscal year in a stronger financial condition that it began the year, as it increased its accumulated net assets from operations by $830,282.

Auditors' Report and Disclosures

Our independent auditors, Maze & Associates issued an unmodified opinion on the financial statements. New footnote disclosures regarding pensions and post employment health benefits (OPEB), while not the most captivating reading, are very informative. Perhaps the most significant disclosure is in Note 11, discusses the potential merger of ABAG and MTC. In short, all bets are off until the future relationship between ABAG and MTC is resolved.

Single Audit

The auditors reported no findings of questioned costs or failures of ABAG to comply with federal regulations that might result in disallowance of significant costs claimed on federal grants.

Management Communications

The auditors reported no significant weaknesses in ABAG internal accounting controls or any disagreements with management regarding accounting policies and estimates.

ASSOCIATION OF
BAY AREA GOVERNMENTS
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

This Page Left Intentionally Blank

ASSOCIATION OF BAY AREA GOVERNMENTS
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Table of Contents

This Page Left Intentionally Blank

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

The Executive Board
Association of Bay Area Governments
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund, of the Association of Bay Area Governments (Association), as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the Association'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 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 Association'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 Association'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.

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Association as of June 30, 2015 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 a Matter

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 that required a prior period adjustment to the financial statements, as discussed in Note 1G to the financial statements:

- Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27.*

- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date —an amendment of GASB Statement No. 68.*

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other Required Supplementary Information 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2015, on our consideration of the Association'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 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 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 Association's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
December 29, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Association of Bay Area Governments (Association) has issued the financial reports for fiscal year ending June 30, 2015 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).

The 2015 financial statements reflect for the first time, the adoption of Government Accounting Standards Board Statement 68 "Accounting and Reporting for Pensions" (GASB 68). GASB 68 requires recognition on the Statement of Net Position of a prior period adjustment for the cumulative unfunded pension liability as of June 30, 2014. As a result of this accounting change, the Association carries a deficit net position at June 30, 2015.

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 Association, 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. An addition to this statement in 2015 is the presentation of deferred outflows and deferred inflows – "deferrals." Deferrals from the adoption of GASB 65 (Items Previously Reported as Assets and Liabilities), and are defined as outflows and inflows of resources that have already taken place but are not recognized as revenues and expenditures because they relate to a future period.

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.

The Basic Financial Statements above provide information about the financial activities of the Association's three programs—ABAG, ABAG Finance Corporation and BALANCE Foundation, each in a separate column. Also presented is the San Francisco Bay Restoration Authority as a "discretely presented component unit."

FISCAL YEAR 2015 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Association's Total Assets were $18.25 million at June 30, 2015. At June 30, 2014, total assets were $13.21 million. Total Assets include Cash and Cash Equivalents of $8.49 million (up $86 thousand from the prior year), Federal, State and Local Grants Receivables of $8.43 million (up $3.54 million), Interest Receivables of $1,786 (up $379), Prepaid Expenses and Other of $124 thousand (down $72 thousand) and Capital Assets net of Accumulated Depreciation of $1.21 million (up $715 thousand). Capital assets include $800 thousand in condominium improvements funded by the Metropolitan Transportation Commission. The increase of $5.04 million in Total Assets is due primarily to the increase in pass-through grants receivable for the BayREN energy conservation rebate program and the San Francisco Estuary Partnership's integrated regional water management program.

- The Association's total program revenues were $35.66 million in FY 2015, while total program expenses were $36.91 million. This imbalance ($1.25 million) is offset by $1.82 million in Membership Dues, $247 thousand in unrestricted donations, and $11 thousand in interest income, all recorded as General Revenues summing to $2.15 million. This yielded an improvement in net position of $830 thousand.

- The Association's total net position at June 30, 2014 was $3,279,017, an adjustment of $11,828,426, to record the unfunded pension liability, reduced the beginning net position to a negative $8,549,409. This adjusted beginning balance was increased by the current year net revenues of $830,282 to an end of year balance of negative $7,719,127. This figure includes Restricted Net Assets of $249,657 in the BALANCE Foundation.

- ABAG program operating revenues for FY 2015 were $35.61 million, including $ 9.1 million pass-through funds for vendors and rebate recipients. There were no operating revenues for ABAG Finance Corporation, and BALANCE Foundation operating revenues were $49.7 thousand.

- ABAG program operating expenses for FY 2015 were $36.79 million, including pass-through expenditures of $9.1 million and consultant services of $14.2 million. ABAG Finance Corporation operating expenses were $3.8 thousand and BALANCE Foundation operating expenses were $119.7 thousand.

- Non-operating revenues (General Revenue) were $2.08 million in total, of which $1.82 million was membership dues, $247 thousand unrestricted donations ($190 thousand to ABAG and $57 thousand to BALANCE Foundation) and $11 thousand of interest income.

- ABAG Net Position at June 30, 2015 was a net deficit of $8.09 million. The shift from a positive net position at June 30, 2014 to a deficit at June 30, 2015 resulted from adoption of GASB 68, which required the recording of the previously unrecorded unfunded pension liability. ABAG Finance Corporation Net Position was $31 thousand and BALANCE Foundation Net Position was $345 thousand of which $250 was restricted.

- The San Francisco Bay Restoration Authority had no financial activity during the year, other than bank interest earnings of $10. The net position of the Authority at June 30, 2015 was $9,601.

NONCURRENT ASSETS

At June 30, 2015, the Association had noncurrent asset of $1.21 million. Depreciable Capital Assets, net of accumulated depreciation were $407 thousand, a decrease of $85 thousand from the prior year. Additions to depreciable capital assets were $68 thousand and depreciation for the year was $153 thousand. Further details of the Association's capital assets are presented in Note 3 to the financial statements.

DEBT ADMINISTRATION

The Association's long term obligation by a payment of $69 thousand toward the $436 thousand owed for the office improvement project at the beginning of the year. This left a balance of $367 thousand for the office improvement project, of which $73 thousand is classified as current portion, payable within the next fiscal year. There was no new debt incurred.

POTENTIAL ORGANIZATIONAL CHANGES

On October 28, 2015, the governing bodies of ABAG and MTC (Metropolitan Transportation Commission) adopted resolutions that provided for the retention of a consultant to conduct a merger study and a merger implementation plan of MTC and ABAG to be completed by June 1, 2016. If the agencies agree to merge, ABAG may cease to exist as an independent entity. If the agencies do not agree to merge, the state mandated land use planning responsibilities carried out by ABAG may be transferred to MTC. Such a transfer would significantly alter the organizational and financial structure of ABAG.

MAJOR PROGRAM INITIATIVES IN FY 2015 AND OUTLOOK FOR FY 2016

We are happy to report the following accomplishments in fiscal year 2015 and goals for fiscal year 2016:

PLANNING AND RESEARCH PROGRAMS

Over the last five decades, ABAG has steadily strengthened its practices as a leader of collaborative regional land use planning, expanding our range of partners, extending the breadth and depth of topics that are influenced by local and regional land use decisions, the Planning and Research Department continues to consolidate research and planning efforts to address sustainability, equity and resilience in the region. We began the update of *Plan Bay Area 2017*, including the development of forecasts and scenarios.

ABAG added two additional priorities for *Plan Bay Area*, resilience and economic development. On the resilience front, federal funding helped us to develop long term recovery strategies related to earthquakes and flooding in partnership with local jurisdictions. On the economic development front, we addressed regional priorities in collaboration with economic development organizations and the regional prosperity consortium.

ABAG continued to support efforts to retain and enhance the qualities of our natural environment and agricultural lands through the Priority Conservation Areas (PCAs), San Francisco Bay Trail, and the San Francisco Bay Water Trail. We also facilitated coordination with the region's water districts and green business programs.

Working closely with local jurisdictions, Congestion Management Agencies (CMAs), and the Metropolitan Transportation Commission (MTC), ABAG's Planning and Research Department continued to provide planning assistance, research support, and institutional coordination for the implementation of Priority Development Area (PDAs), enhancement of open space and regional trails, housing production, and economic development.

Housing Production and Affordability

Planning and Research staff continued to initiate and support efforts to develop new funding sources for affordable housing and to remove obstacles to jurisdictions' implementation of local infill development objectives, continue to work with MTC to use existing resources to incentivize and support infill housing production, continue to co-lead the Housing the Workforce initiative of the Regional Prosperity Plan (aka HUD grant) to upgrade the housing production tracking system, and to identify and publicize replicable local effective practices that address economic displacement due to new development.

Economic Development

Based on the regional economic development framework developed in 2014-2015, ABAG staff supported the implementation of targeted efforts and identified the priorities for the Plan Bay Area update. Given the increasing investment opportunities in the region for the next couple of years, staff is working with local jurisdictions to support entitlement streamlining for projects within PDAs. Under the guidance of the Joint Policy Committee, ABAG collaborated with regional agencies, business groups, and community-based organizations to strengthen the competitiveness of the regional economy, enhance local business districts in PDAs, support the vitality of industrial districts, and expand access to job opportunities for all Bay Area residents.

Resilience

ABAG's Resilience Program helps local jurisdictions build communities that can prosper and thrive in the face of ongoing natural stressors and unexpected shocks. Our priority concerns are the vulnerability of our region's housing stock to earthquakes and flooding, the vulnerability of our interconnected infrastructure systems which underpin the region's economy, and the importance of collaborative regional resilience planning. ABAG's work priorities are:

- Assess the Bay Area's risk landscape relative to all significant natural hazards, building on the extensive world-class work that has already been done on this topic throughout the region, while recognizing the unique issues facing each Bay Area community.

- Support member cities and counties in developing innovative local resilience plans that meet the requirements of a local hazard mitigation plan and are coordinated and integrated with other local plans.

- Introduce resilience perspectives, adaptive climate action, social justice measures, and disaster mitigation, into the 2017 *Plan Bay Area.*

- Foster a resilience community of practice in the Bay Area that identifies and develops local champions who have the opportunity to connect with one another, learn from each other, and have the tools to carry resilience work forward in their own jurisdictions and collectively for the region.

- Provide in-depth assistance to help member jurisdictions overcome the barriers of limited resources and technical expertise by developing resilience implementation tools and guidance, as well as providing technical assistance. ABAG staff will continue to partner closely with the San Francisco Bay Conservation and Development Commission (BCDC) in developing mutually beneficial shoreline flooding and earthquake strategies wherever opportunities arise.

- Continue to support the City of Oakland with technical and policy assistance to develop and implement a soft-story retrofit ordinance and implementation program to create safer housing for Oakland residents; continue to support the housing needs of the region for the long-term; and serve as model practice for application in other Bay Area communities.

- Promote the adoption of consensus regional resilience strategies emanating from ABAG's LP25 symposium in partnership with member cities and counties and key regional and state stakeholders.

Bay Trail/Water Trail, Open Space and Farmland Preservation

ABAG will continue to extend the Bay Trail and Bay Water Trail, expand public use of this great regional amenity, and strengthen political and financial support for its development and maintenance.

Priority Conservation Areas — Regional planning strategies can help protect and maintain our natural habitat, water resources, agricultural land, and open space. Priority Conservation Areas (PCAs) complement PDAs by identifying locations with high ecological, recreational, and economic value. To date, more than 100 locally selected PCAs populate this useful coordination framework. Adoption of *Plan Bay Area* set the stage for implementation activities, including:

- One Bay Area Grant (OBAG) PCA Grant Pilot Program: ABAG and MTC are assisting local jurisdictions and CMAs in implementing a $10 million program to support projects in PCAs; administering $5 million directly in North Bay counties and $5 million through the California Coastal Commission for the rest of the Bay Area.

- ABAG in partnership with key open space entities will update the PCA Framework to further define the role of different kinds of PCAs to support habitat, agriculture, recreation, and various ecological functions.

- ABAG continues to work with jurisdictions and other stakeholders to evaluate and potentially establish additional PCAs.

San Francisco Bay Trail & San Francisco Bay Area Water Trail

The San Francisco Bay Trail, celebrated its Silver Anniversary (25^{th}) in 2014, is based on a visionary plan for a shared-use bicycle and pedestrian path along the shoreline that will one day allow continuous travel around San Francisco Bay, extending over 500 miles to link the shoreline of nine counties, passing through 47 cities and crossing seven toll bridges. Already, 340 miles have been completed and are in use. ABAG administers the project and provides regional leadership for its completion.

The San Francisco Bay Area Water Trail is a network of landing and launch sites for non-motorized small boats. ABAG plays a critical role implementing this new regional trail in partnership with BCDC, the California Division of Boating and Waterways and the lead agency and primary funder, the State Coastal Conservancy.

Major priorities for both include: manage planning and construction grants, and award new grants; expand partnerships with private corporations and other organizations for specific gap closures; participate in working groups addressing sea level rise, such as Adapting to Rising Tides, and provide input on climate action plans; revise the Bay Trail Design Guidelines and complete the sign installation plan; cultivate legislative champions; expand coverage of the mobile phone tours app; redesign the Bay Trail website; designate and improve Water Trail sites; publish project updates and participate in trail dedications and other public events; public outreach to promote trail usage and support environmental education, public health and tourism.

Regional Social, Economic, and Land Use Research

ABAG research staff completed the regional level forecast of household formation and employment growth, and will work with the Interagency Modeling Group to prepare the land use analysis and develop alternative scenarios for the SCS environmental assessment.

Modeling, Forecasting, and Trend Analysis

ABAG research staff applied new tools acquired in FY 2014/15 to update the forecast to be released in 2017. ABAG staff adapted the REMI (designed by Regional Economic Modeling Inc.) model to reflect current and expected future conditions of the region's economy and will build on the model to prepare employment, income, and output forecasts for the region.

Resources for Mapping

Research staff continues to enhance tools and resources that allow policy makers and the public to visualize important information about regional growth. In Fiscal Year 15-16, the work will include upgrade of system software and GIS application software; creating a searchable catalogue of GIS resources; convert existing map applications to new APIs; and using the upgraded platform to release a PDA showcase update with many new features, and (beta) release an inventory of all housing sites identified in local Housing Elements.

Intergovernmental Coordination

In its core role as convener of inter-governmental and cross-sector collaborations to plan regionally and to coordinate implementation of regional plans, ABAG will continue to act as the administrative sponsor for the Joint Policy Committee, the Regional Planning Committee, Regional Airport Planning Committee, the Hazardous Waste Facility Allocation Committee and the Environmental Information Clearinghouse. We will also continue to provide leadership and administrative support for the numerous collaboratives mentioned earlier in the Planning and Research work program, including San Francisco Bay Trail Board, San Francisco Water Trail Advisory Committee, East Bay Corridors working groups, and the Regional Prosperity Consortium.

SAN FRANCISCO ESTUARY PROGRAM (SFEP)

The San Francisco Estuary Partnership (SFEP) and its cooperating agencies and organizations both initiated, and continued work on a wide array of projects and activities in support of the Partnership's mandate: To protect, enhance, and restore the San Francisco Bay-Delta Estuary by implementing actions called for in the *Comprehensive Conservation and Management Plan.*

The Partnership has:

- Been instrumental in helping the region propose, secure, and now manage $50 million in multi-benefit water quality and drought response projects across the region.
- Continued our $5 million partnership with seven East Bay cities, having secured funds to build green stormwater treatment devices to improve water quality and quality of life along San Pablo Avenue.
- Organized the highly successful Bay Delta Conference, again partnering with the Delta Science Program. The Conference was held in Sacramento in October with over 1,000 attendees..
- Concluded our successful ***Got Ants?*** social media campaign to reduce pesticide use in urban creeks and promote Integrated Pest Management practices.
- Continued public outreach efforts with the 22st year of publication of our award-winning *Estuary* news magazine.

New and ongoing projects include:

- GreenPlan Bay Area is a collaborative effort between San Francisco Estuary Partnership, San Francisco Estuary Institute and Bay Area municipalities to develop spatial tools which will be used to develop plans that identify the optimal combination of Green Infrastructure -Low Impact Development features for achieving desirable outcomes at the watershed scale.
- Flood Control 2.0 is a timely project to develop a set of innovative approaches for bringing environmental benefits and cost-savings to flood protection infrastructure along the San Francisco Bay shoreline. This work will help transform costly trapped sediment in local flood control channels from a problem into a resource.
- Providing technical support services to the Santa Clara Valley Water District, Alameda County Flood Control Program, Caltrans, Marin County, SMART, the Sonoma County Water Agency, and East Bay Municipal Water District.

- Providing technical assistance to the State Water Board managing fine money directed at environmental projects and supporting the Bay-Delta Science Program through contracts for experts to assist in the scientific research.

ABAG PUBLICLY-OWNED ENERGY RESOURCES (POWER)

ABAG Publicly Owned Energy Resources (ABAG POWER) is a joint powers agency (JPA) formed by ABAG in 1997 to acquire energy on behalf of local governments, as well as provide energy management and telecommunication services.

ABAG POWER currently offers natural gas aggregation to 38 local governments and special districts in the Pacific Gas and Electric (PG&E) service territory. ABAG POWER provides a public sector approach to pooled purchasing, and each public agency is guaranteed a voice in program operations and decisions through its representative to the ABAG POWER Board of Directors and Executive Committee.

ABAG POWER purchases natural gas on behalf of members and arranges for it to be delivered to the PG&E system for distribution. The goal of ABAG POWER's Natural Gas Program is to provide both cost savings and price stability. Current goals and objectives include:

- Continue to provide cost effective natural gas aggregation and delivery services for local governmental agencies. This will include active solicitations among natural gas marketers, and the addition of new gas suppliers, as necessary, to continue receiving the most competitive pricing.
- The ABAG POWER Executive Committee will continue to discuss and analyze refinements to the general gas purchasing strategy, including fixed-price product allocations, in order to meet program goals related to cost savings and price stability.
- Continue to encourage additional participants in both the core, and noncore programs that supply larger facilities. Qualified, noncore customers can take advantage of lower gas transportation rates that are not available to PG&E customers. ABAG POWER currently supplies gas to three noncore facilities (City of Santa Rosa, City of Watsonville, and County of San Mateo).

The San Francisco Bay Area Regional Energy Network (BayREN). The BayREN was initially approved as a pilot for two years, with a one year extension. The California Public Utilities Commission recently moved to a Rolling Portfolio and the BayREN received funding through 2025. The four main program elements are:

1. **Single Family Energy Retrofit**

The BayREN Single Family Home Upgrade program is designed to reduce energy use in existing single family homes and 2-4 unit residences in the Bay Area. Program goals include improving the environment, helping homeowners save money by saving energy, increasing public awareness of energy efficiency co-benefits like improved comfort and indoor air quality, and stimulating green job growth. Homeowners can be eligible for rebates from $1,000 to $6,500 based upon the scope of work performed and associated energy savings, plus a $300 home energy assessment rebate with an Advanced Home Upgrade. The BayREN has paid approximately $5 million in incentives to Bay Area homeowners.

2. Multi-family Energy Retrofit

The Bay Area Multifamily Building Enhancements ("BAMBE") program offers free technical consulting and rebates for energy efficiency in multifamily buildings with 5 or more attached dwelling units. Property owners may earn $750 per dwelling unit for installing energy upgrades. The program has far exceeded its targets and has received over $5 million dollars in additional funding from PG&E to satisfy the high demand for the program.

3. Energy Efficiency Codes and Standards

The BayREN Codes and Standards Program was established to address the role that local building policies, reviews, and inspections play in the energy use of buildings in the region. The Program provides resources and trainings for local planning and building departments to reduce energy consumption in buildings through improved enforcement of energy codes and greater adoption and implementation of green building ordinances.

4. Financing for Energy Efficiency Projects

Commercial PACE: PACE stands for Property Assessed Clean Energy financing, which allows property owners to 1) pay the costs of upgrades as a separate assessment on the building tax roll, and 2) carry the costs as annual maintenance - rather than debt - expense.

PAYS®

The BayREN Pay As You Save (PAYS®) pilots are helping municipal water utilities in the Bay Area use a tariff based on-bill repayment program to promote greater adoption of resource efficiency measures. PAYS allows water utility customers to receive water and energy saving measures (such as high efficiency toilets, shower heads, and drought-tolerant landscaping) at no up-front cost and pay for the measures over time through a surcharge on their water bill that is less than their utility cost savings.

MULTI-FAMILY CAPITAL ADVANCE PROGRAM

This financing program provides 50% of the financing at zero interest and is available for eligible owners of multifamily properties located with the BayREN region with at least 5 units, who undertake upgrade projects with a scope defined by the BayREN Multifamily retrofit program or the PG&E's multifamily program. The property owner is obligated to repay the total principal, and BayREN receives a pro rata share of each payment. The repaid funds are recycled to provide capital for additional projects.

INSURANCE POOL PROGRAMS

ABAG PLAN Corporation provides property, liability and crime insurance coverage to 29 cities and towns in the greater Bay Area under a pooled risk sharing agreement. In addition to PLAN, the SHARP Program (Workers Compensation Shared Risk Pool) provides affordable Workers Compensation coverage to its participating members.

In 2014, PLAN invested $850,000 in its *Risk Management Best Practices Program,* which focuses on loss control and safety. In 2015 PLAN provided its members providing *Risk Management and Loss Control* consulting services, as well as, claims administration services. This year's focus was public works, sewer claim prevention, sidewalk safety, and public safety (law enforcement). In 2015, PLAN also provided training on contractual risk transfer (contracting risk). PLAN implemented *Focus,* a new automated claims reporting platform. PLAN has completed the transition to York Risk Services, a third party claims administrator, and has realized significant cost savings and increased efficiency of claims administration.

ABAG FINANCIAL SERVICES

ABAG Financial Services has been providing conduit financing to various public and private organizations throughout the state of California since 1978. Its Programs provide convenient, cost saving, and secure means to meet the capital financing needs of public agencies and their nonprofit partners serving the public interest. To date, the Agency has provided over $8 billion in low cost investment capital for projects in more than 240 local jurisdictions. The Agency helps its Members to provide for construction of new hospitals and medical clinics, transit systems, affordable housing, schools, museums, water and wastewater systems, and other Member-owned infrastructure. The Agency takes special focus on assisting in the construction and preservation of affordable housing, providing financing to date for nearly twelve-thousand units in nearly one-hundred affordable apartment communities. The Agency will also continue to offer its industry leading pooled financing vehicle for Water and Wastewater Districts. This financing pool provides easy access and low cost funding for the smaller borrowing needs of ABAG Members and special districts in their jurisdictions.

ABAG TRAINING CENTER

The ABAG Training Center has been an ABAG service program since 1979, created to provide economical alternatives for local government employees to obtain professional development training. Today, our courses focus on safety training for field workers and first responders. The courses satisfy requirements of the Occupational Safety and Health Administration and the U.S. Department of Transportation. These courses reach students in the Bay Area and around the world through our web-based identity. The Training Center had another strong Fiscal Year in 2014-15, with more than 7,000 students receiving training and generating more than half a million dollars in revenue. A redesigned website and online marketing helped maintain our position in a competitive field.

FISCAL MANAGEMENT SERVICES

ABAG provides fiscal management services to Bay Area public purpose entities and region-wide grant programs. Entities serviced are: ABAG PLAN Corporation, ABAG Workers Compensation Shared Risk Pool, ABAG Finance Authority for Nonprofit Corporations, ABAG Publicly Owned Energy Resources, and the San Francisco Bay Area Water Emergency Transit Authority. These services include accounting, financial reports, cash management, investments, debt issuance, grants management, and other related financial support services. Over the past year, several grants furthering sustainability have been awarded, requiring substantial fiscal services. These included grants for promoting and incentivizing the improvement of energy efficiency of homes and the installation of enhancements such as insulation, double-paned windows and solar panels; as well as grants to enhance water quality of the Delta and San Francisco Bay including water recycling, cleaning up creeks emptying into the Bay, and capturing water in natural medians instead of storm drains.

LEGISLATIVE ACTIVITIES

The ABAG Legislation and Governmental Organization Committee (L&GO) is comprised of elected officials from the Bay Area's cities, towns, and counties. Through the Committee, ABAG is actively serving members by providing a platform for them to work collaborative to influence legislation that impacts local governments throughout the region. Approximately 30 state bills were reviewed by the Committee during the 2014 Legislative Session.

ABAG's L&GO Committee actively supported integrated planning and sustainable community strategy implementation through housing element reform legislation that was subsequently signed into law at the end of 2014. The Committee supported the Levine Bill (AB 1537). The bill corrected an anomaly in Government code that previously designated Marin County (population 250,000) as a "metropolitan county" rather than a suburban county with a default density of 20 dwellings units per acre.

In addition, Committee supported legislation establishing innovative financing for planning and infrastructure services to assist local governments was passed and signed into law. Environmental bills supported by the ABAG L&GO Committee addressing local agencies hazardous materials clean-up also passed and became law. In total, five of the bills tracked and supported by the L&GO Committee became law and one was vetoed.

Committee activities throughout the year included policy briefings, a Legislative Workshop and Reception co-hosted by ABAG, California State Association of Counties (CSAC), and California Association of Councils of Governments (CALCOG) with MTC support, and face-to-face dialogues with legislators about Bay Area needs and challenges.

In Fiscal Year 2015-2016 Legislative Activities will:

1. Continue to focus on SB 375 and Plan Bay Area Implementation through legislative objectives such as affordable housing funding, housing element reform, and better California Environmental Quality Act (CEQA)/entitlement efficiency. In December 2014, the Committee made suggestions for 2015 priorities to include more specific types of funding bills related to housing and infrastructure, as well as specific housing element reforms that would give housing credits for assisted living, acquisition/rehabilitation, and workforce housing investment/housing trust funds.

2. The Committee will continue to pursue legislation that would lower the 2/3 supermajority vote threshold for infrastructure taxes and bonds statewide and locally.

COMMUNICATIONS

The Communications Department in 2014, worked with all ABAG departments to promote ABAG's mission and to inform and engage ABAG members in relevant programs and activities. Major efforts included regional conferences and workshops, publications, media, and web outreach centered around sustainable growth, economic and physical resilience, and complete communities as well as municipal insurance and energy programs.

Activities included:

- Implementation of *Plan Bay Area* outreach and public engagement strategies to help local governments with Priority Development Areas.
- Expanded outreach to ABAG General Assembly delegates and member staffs to facilitate better use of ABAG programs and services and collaborate with communities to implement their land use and transportation priorities.
- Support for two ABAG programs with significant milestones in 2014: the Bay Trail Program and the Resilience Program.
- The **ABAG Spring General Assembly**, *Sharing Opportunity in the Bay Area: Access to Jobs and Housing,* brought together more than 120 local elected officials, city/town and county agency directors and staff and business leaders to discuss potential Bay Area growth and how to ensure that benefits reach working families and young people throughout the entire Bay Area. This conference highlighted regional assets and challenges and showcased innovative strategies to enhance job and housing opportunities. Panels presented a range of perspectives from business leaders, economists, arts community members, and green businesses. This event also celebrated members' achievements with the Growing Smarter Together Awards.
- *Designing, Financing, & Administering First-Time Home Buyer* program training event for city staff and non-profit agency housing professionals. More than 50 representatives from member cities and non-profit agencies benefitted from this hands-on workshop.
- ABAG's Resilience Program (formerly named the Earthquake and Hazards Program) in conjunction with other agency partners, developed and conducted a *Public Policy Symposium to Commemorate the 25th anniversary of the Loma Prieta Earthquake and to Support Future Resilience Action* (LP25). Communications also provided media outreach, including op-eds, press releases, and other activities as part of a team. Nearly 200 individuals from the public and private sector attended this important event.

SAN FRANCISCO BAY RESTORATION AUTHORITY

The San Francisco Bay Restorations Authority (Authority) is a regional agency with a Governing Board made up of local elected officials appointed by ABAG. Its purpose is to raise and allocate local resources for the restoration, enhancement, protection, and enjoyment of wetlands and wildlife habitat in San Francisco Bay and along its shoreline.

During FY 2015, the Authority developed a revenue measure for possible placement on the 2016 ballot and continued public outreach to better inform the public of the needs of the Bay and Delta, the restoration and preservation efforts needed and the role of the Authority in meeting those needs.

In fiscal year 2016 the Authority will:

- Evaluate support for a June 2016 regional parcel tax measure.
- Decide whether to place the measure on the June or November ballot.
- Conduct outreach and educational efforts to inform the public on the regional parcel tax measure if placed on the June ballot.

CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT

This financial report is intended to provide citizens, taxpayers, creditors, and stakeholders with a general overview of the Association's finances. Questions about this report may be directed to the ABAG Finance Department, at 101 Eighth Street, Oakland, California 94607.

ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF NET POSITION
JUNE 30, 2015

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
ASSETS					
Current Assets					
Cash and Investments (Note 2):					
Cash and Cash Equivalents	$8,128,348	$32,620	$326,513	$8,487,481	$9,601
Receivables:					
Federal, State and Local Grants	8,404,097		25,620	8,429,717	
Interest	1,585		201	1,786	
Prepaid Expenses and Other	123,870			123,870	
Total Current Assets	16,657,900	32,620	352,334	17,042,854	9,601
Noncurrent Assets					
Non-Depreciable Capital Assets (Note 3)	800,000			800,000	
Capital Assets, Net of Accumulated Depreciation (Note 3)	407,354			407,354	
Total Assets	17,865,254	32,620	352,334	18,250,208	9,601
DEFERRED OUTFLOWS					
Deferred Outflows Related to Pension (Note 8)	1,305,738			1,305,738	
Total Deferred Outflows	1,305,738			1,305,738	
LIABILITIES					
Current Liabilities					
Accounts Payable	6,094,466	1,664	7,432	6,103,562	
Compensated Absences (Note 1E)	370,456			370,456	
Other Accrued Liabilities	262,011			262,011	
Current Portion of Long-Term Obligations (Note 4)	73,231			73,231	
Unearned Revenue	6,031,171			6,031,171	
Total Current Liabilities	12,831,335	1,664	7,432	12,840,431	
Noncurrent Liabilities					
Compensated Absences, Noncurrent (Note 1E)	179,407			179,407	
Collective Net Pension Liability (Note 8)	11,357,673			11,357,673	
Net OPEB Obligation (Note 9)	401,777			401,777	
Long-Term Obligations, Net of Current Portion (Note 4)	293,747			293,747	
Total Noncurrent Liabilities	12,232,604			12,232,604	
Total Liabilities	25,063,939	1,664	7,432	25,073,035	
DEFERRED INFLOWS					
Deferred Inflows Related to Pension (Note 8)	2,202,038			2,202,038	
Total Deferred Inflows	2,202,038			2,202,038	
NET POSITION (Note 7)					
Net Investment in Capital Assets	40,376			40,376	
Restricted			249,657	249,657	9,601
Unrestricted	(8,135,361)	30,956	95,245	(8,009,160)	
Total Net Position	($8,094,985)	$30,956	$344,902	($7,719,127)	$9,601

See accompanying notes to basic financial statements

ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
PROGRAM REVENUES					
Operating Grants and Contributions:					
Grants	$29,195,508			$29,195,508	
Subtotal	29,195,508			29,195,508	
Charges for Services					
Reimbursements	5,437,298	$198	$49,725	5,487,221	
Other	980,575			980,575	
Subtotal	6,417,873	198	49,725	6,467,796	
Total Program Revenues	35,613,381	198	49,725	35,663,304	
PROGRAM EXPENSES					
Salaries and Related Benefits	11,367,923			11,367,923	
Consultant Services	14,161,428	3,817	101,623	14,266,868	
Pass-through Awards	9,084,115			9,084,115	
Equipment, Maintenance and Supplies	116,144			116,144	
Outside Printing Costs	72,985		339	73,324	
Conference and Meeting Costs	114,928			114,928	
Depreciation (Note 3)	152,823			152,823	
Building Maintenance	259,586			259,586	
Postage	20,824			20,824	
Insurance	145,446			145,446	
Telephone	62,468			62,468	
Utilities	123,529			123,529	
Committee	71,550			71,550	
Other	948,573		17,785	966,358	
Interest Expense	85,806	12		85,818	
Total Program Expenses	36,788,128	3,829	119,747	36,911,704	
Net Program Loss	(1,174,747)	(3,631)	(70,022)	(1,248,400)	
GENERAL REVENUES					
Membership Dues	1,820,316			1,820,316	
Donations - Unrestricted	190,429		57,015	247,444	
Interest Income	10,051	28	843	10,922	$10
Total General Revenues	2,020,796	28	57,858	2,078,682	10
Change in Net Position	846,049	(3,603)	(12,164)	830,282	10
Net Position-Beginning, as previously stated	2,887,392	34,559	357,066	3,279,017	9,591
GASB 68 Implementation	(11,828,426)			(11,828,426)	
Net Position-Beginning, as adjusted (Note 1G)	(8,941,034)	34,559	357,066	(8,549,409)	
Net Position-Ending	($8,094,985)	$30,956	$344,902	($7,719,127)	$9,601

See accompanying notes to basic financial statements

ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
CASH FLOWS FROM OPERATING ACTIVITIES					
Grant receipts	$26,301,201			$26,301,201	
Receipts from customers and members	7,448,043	$694	$93,234	7,541,971	
Payments to contractors and members	(21,161,267)		(118,931)	(21,280,198)	($45,415)
Payments to employees	(11,604,725)			(11,604,725)	
Payments to committees	(71,550)			(71,550)	
Other receipts (payments)	980,575			980,575	
Net cash flows from operating activities	1,892,277	694	(25,697)	1,867,274	(45,415)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(867,888)			(867,888)	
Repayment of long-term obligations	(68,976)			(68,976)	
Interest paid	(85,806)	(12)		(85,818)	
Net cash flows from capital and related financing activities	(1,022,670)	(12)		(1,022,682)	
CASH FLOWS FROM INVESTING AND RELATED FINANCING ACTIVITIES					
Interest received	9,716	$28	799	10,543	10
Net cash flows	879,323	710	(24,898)	855,135	(45,405)
Cash and cash equivalents at beginning of year	7,249,025	31,910	351,411	7,632,346	55,006
Cash and cash equivalents at end of year	$8,128,348	$32,620	$326,513	$8,487,481	$9,601
Reconciliation of operating income to net cash provided by operating activities:					
Net Program Loss	($1,174,747)	($3,631)	($70,022)	($1,248,400)	
Adjustments to reconcile net program loss to cash flows from operating activities:					
Depreciation	152,823			152,823	
Membership dues	1,820,316			1,820,316	
Donations - unrestricted	190,429		57,015	247,444	
Interest	85,806	12		85,818	
Change in assets and liabilities:					
Receivables	(3,530,323)	496	(13,506)	(3,543,333)	$50
Prepaid expenses and other assets	69,805	2,153		71,958	
Accounts payable	3,344,334	1,664	816	3,346,814	(45,465)
Compensated absences	(38,603)			(38,603)	
Other accrued liabilities	109,073			109,073	
Unearned revenue	636,016			636,016	
Net OPEB obligation	(198,199)			(198,199)	
Decrease (increase) in due to retirement system	425,547			425,547	
Net cash flows from operating activities	$1,892,277	$694	($25,697)	$1,867,274	($45,415)

See accompanying notes to basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Association of Bay Area Governments (the Association) was established in 1961 by agreement among its members—counties and cities of the San Francisco Bay Area pursuant to the Joint Exercise of Powers Act, California Government Code Section 6500, et sq. The Association is a separate entity from its members and its purpose is to serve as a permanent forum to discuss and study matters of mutual interest and concern to member jurisdictions, develop policies and action plans, and provide services and undertake actions addressing such matters.

The Association is governed by a General Assembly comprised of elected officials from member cities and counties. The General Assembly appoints an Executive Board to carry out policy decisions, approve the annual budget, appoint an Executive Director, and report to the General Assembly.

A. *Reporting Entity*

The Association is a membership organization that provides a variety of planning and other service programs for its members.

The accompanying basic financial statements present the operations of the Association, which is the primary activity, along with the financial activities of its component units, which are entities for which the Association is financially accountable. Although they are separate legal entities, they are presented in the basic financial statements as either a blended component unit or discretely presented component unit.

Blended Component Units

Blended component units are in substance part of the Association's operations and are reported as an integral part of the Association's financial statements. The following component units are blended and are described below:

- ABAG Finance Corporation (Corporation) is a non-profit public benefit corporation created on June 24, 1985 that aids members in obtaining financing by acting as a conduit in the sponsorship of credit pooling arrangements. Participating members issue debt, leases or certificates of participation (COPs) that are pooled as a single issue by the Corporation. Members' payments are pooled to repay the debt and the assets leased become the property of the member when it has paid off its debt obligation.

  The Corporation is governed by a sub-committee of the Association's Executive Board, which establishes financing policies and approves each credit pooling arrangement.

- BALANCE Foundation (BALANCE) is a non-profit, tax-exempt corporation created on September 22, 1987, established to assist Bay Area governments in obtaining funds to study, analyze and resolve regional issues. BALANCE is governed by a Board of Directors whose appointment is controlled by the Association.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Unit

A component unit is a legally separate organization for which elected officials of the primary entity are financially accountable. It can also be an organization whose relationship with the primary entity is such that exclusion would cause the reporting entity's financial statement to be misleading or incomplete. The Association has one discretely presented component unit, San Francisco Bay Restoration Authority.

- The San Francisco Bay Restoration Authority (Restoration Authority) was created by a State legislation on September 30, 2008 to raise and allocate resources for the restoration, enhancement, protection, and enjoyment of wetlands and wildlife habitat in the San Francisco Bay and along its shoreline. The Restoration Authority is governed by a board that is appointed by the Association, yet is composed of members that are different from the Association's board.

Additional financial information for each component unit can be obtained at the entity's administrative offices, 101 Eighth Street, Oakland, CA 94607-4707.

Other Affiliated Entities

Over the past two decades, the Association created a number of public purpose entities to offer various service programs. The financial activities of the entities are not included in these financial statements because these entities are not controlled by the Executive Board and the composition of their membership may be different than that of the Association. However, the Association has agreements with each of these entities to provide management, administrative and other support services. These entities and the service programs offered are described below:

- ABAG Pooled Liability Assurance Network (PLAN) Corporation provides risk management, liability coverage, claims management and loss prevention services for participating members of PLAN. The Association acts as PLAN's trustee, providing promotional, administrative, and management support. On behalf of PLAN, the Association incurred $1,690,878 for these services and $498,090 for contract services in the fiscal year ended June 30, 2015.

- ABAG Finance Authority for Non-profit Corporations (FAN) assists non-profit corporations in obtaining financing. The Association assists FAN in issuing tax-exempt debt. It also provides administrative and management support. On behalf of FAN, the Association incurred $1,022,223 for these services and $473,387 for contract services in the fiscal year ended June 30, 2015.

- ABAG Comp Shared Risk Pool (SHARP) provides workers compensation coverage and claims management for participating members. The Association provides risk management, administrative, and management support. On behalf of SHARP, the Association incurred $107,332 for these services and $25,816 for contract services in the fiscal year ended June 30, 2015.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- ABAG Publicly Owned Energy Resources (POWER) provides gas energy aggregation services to participating members. The Association acts as POWER'S trustee, providing promotional, administrative and management support. On behalf of POWER, the Association incurred $359,441 for these services and $5,800 for contract services in the fiscal year ended June 30, 2015.

B. Basis of Presentation

The Association'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.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary reporting entity (the Association). These statements include the financial activities of the overall Association. Eliminations have been made to minimize the double counting of internal activities. These statements display the *business-type activities* of the Association. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Association's business-type activities. Direct expenses are those that are specifically associated with a program or function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, (c) grants providing advances of funds that are passed through ABAG to contractors or end recipients as reimbursements or incentive payments for specified and (d) fees, grants and contributions that 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. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total. The Association's major funds are presented separately in the fund financial statements.

The Association reported all its enterprise funds as major funds in the accompanying financial statements:

Association of Bay Area Governments Fund – this fund accounts for revenues and expenses of the Association.

ABAG Finance Corporation Fund – this fund accounts for revenues and expenses of the ABAG Finance Corporation.

BALANCE Foundation Fund – this fund accounts for revenues and expenses of the Bay Area Leaders Addressing the Challenge of the Economy and Environment Foundation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred,* regardless of when the related cash flows take place.

Non-exchange transactions, in which the Association gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all performance requirements have been satisfied. Expenditures in excess of reimbursement are recorded as receivables, and advanced reimbursements are recorded as unearned revenues.

The Association offers a number of service programs that are funded on a cost-reimbursement or fee-for-service basis. Discretionary funds, comprised primarily of membership dues, amount to about 6.4% of total revenues, excluding pass-through awards. Discretionary funds are used to cover certain management and administrative expenses and may occasionally be allocated to meet local match requirements as stipulated in certain grant contracts. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Association's policy is to first apply restricted grant resources to such programs, followed by unrestricted revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

E. Compensated Absences

Compensated absences comprise vacations and are recorded as an expense when earned. The accrued liability for unused compensated absences is computed using current employee pay rates. Sick pay does not vest and is not accrued.

The changes in the compensated absences were as follows:

Balance June 30, 2014	$588,466
Additions	265,565
Payments	(304,168)
Balance June 30, 2015	$549,863
Due within one year	$370,456

F. Estimates

The Association'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 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prior Period Adjustments

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2015.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.* The intention of this Statement is to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* The intention of this Statement is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

The implementation of the above Statements required the Association to make prior period adjustments. As a result, the beginning net position of the Business-Type Activities of the ABAG Fund was reduced by $11,828,426. See Note 8 for additional information.

H. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

NOTE 2 - CASH AND INVESTMENTS

A. *Carrying Amount and Fair Value*

Cash and investments comprised the following at June 30, 2015:

	Association and other blended component units	SF Bay Restoration Authority	Total
Local Agency Investment Fund	$2,452,756		$2,452,756
Cash:			
Cash in banks	6,034,405	$9,601	6,044,006
Cash on hand	320		320
Total Cash and Investments	$8,487,481	$9,601	$8,497,082

The Association pools cash from all sources and all funds so that it can be invested at the maximum yield, consistent with the principles of safety and liquidity. Individual funds can make expenditures at any time. Investments are carried at fair value.

B. *Investments Authorized by the Association*

The Association's Investment Policy and the California Government Code allow the Association to invest in the following, within the stated guidelines:

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	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	10%	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

NOTE 2 - CASH AND INVESTMENTS (Continued)

C. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of the Association's investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. The sensitivity of the fair values of the Association's investments to market interest rate fluctuations is presented by the following maturity schedule of the Association's cash and investments:

	12 Months or less
Local Agency Investment Fund	$2,452,756
Cash in banks	6,044,006
Cash on hand	320
Total Cash and Investments	$8,497,082

As of year-end, the weighted average maturity of the investments in the LAIF investment pool is approximately 239 days.

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 Association 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 110% to 150% of the Association's cash on deposit. All of the Association'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 Association's name.

E. *Local Agency Investment Fund*

The Association 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 Association 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 maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, 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.

Under California Government Code, LAIF is allowed greater investment flexibility than the Association is permitted. As such, LAIF's investment portfolio may contain investments not otherwise permitted for the Association. For funds invested in LAIF, LAIF's investment policy overrides the Association's investment policy.

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. Statement of Cash Flows

For purposes of the statement of cash flows, the Association considers all highly liquid investments, including restricted investments but excluding cash with fiscal agents, with a maturity of three months or less when purchased to be cash equivalents.

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 Association'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:

Facilities and improvements	5 to 30 years
Furniture and equipment	3 to 10 years
Vehicles	5 years
Capitalized software	3 to 6 years

Capital asset balances and transactions as of June 30 are summarized below:

	June 30, 2014	Additions	Retirements	June 30, 2015
Capital assets not being depreciated:				
Construction in process		$800,000		$800,000
Total capital assets not being depreciated		800,000		800,000
Capital assets being depreciated:				
Facilities and improvements	$3,604,147			3,604,147
Furniture and equipment	1,057,238	60,618	$38,701	1,079,155
Vehicles	57,652			57,652
Capitalized software	690,704	7,270		697,974
Total capital assets being depreciated	5,409,741	67,888	38,701	5,438,928
Less accumulated depreciation for:				
Facilities and improvements	(3,431,069)	(45,932)		(3,477,001)
Furniture and equipment	(738,028)	(106,285)	(38,701)	(805,612)
Vehicles	(57,652)			(57,652)
Capitalized software	(690,703)	(606)		(691,309)
Total accumulated depreciation	(4,917,452)	(152,823)	(38,701)	(5,031,574)
Total depreciable assets	492,289	(84,935)		407,354
Total	$492,289	$715,065		$1,207,354

NOTE 4 - LONG TERM OBLIGATION

A. *Additions and Retirements*

The Association's obligation issues and transactions are summarized below and discussed in detail thereafter:

	Balance June 30, 2014	Retirements	Balance June 30, 2015	Current Portion
BUSINESS-TYPE ACTIVITY				
Office Improvement Project				
Variable rate + 1%, due 1/1/2020	$435,954	($68,976)	$366,978	$73,231
Total	$435,954	($68,976)	$366,978	$73,231

B. *Line of Credit*

In July 2009, the Association signed a $2 million line of credit arrangement with a bank. In fiscal year 2014, the Association renewed the line of credit to mature on February 28, 2016. Interest is at a variable rate that shall not be less than 4.00% annually and is to be paid monthly. Pursuant to its agreement with the bank the Association assigned its future rents and revenues and pledged its interest in the building as collateral. No borrowings were made on the line of credit during fiscal year 2015.

C. *Installment Sales Agreement*

In January 2010, the Association entered into an installment sale agreement with ABAG Finance Authority for Non-profit Corporations (Authority) in the amount of $700,000, whereas, the Authority financed various office improvement projects to the Association. 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% as of June 30, 2015). As of June 30, 2015, based on the June 30, 2015 interest rate, the installment agreement obligations were as follows:

For the Year Ending June 30	Principal	Interest	Total
2016	$73,231	$4,767	$77,998
2017	77,747	3,816	81,563
2018	82,543	2,806	85,349
2019	87,634	1,734	89,368
2020	45,823	595	46,418
Total	$366,978	$13,718	$380,696

NOTE 5 - WINDEMERE RANCH ASSESSMENT DISTRICT SPECIAL ASSESSMENT DEBT

On behalf of Contra Costa County, the Association formed the Windemere Ranch Assessment District (District) in an unincorporated area of that County. The District issued special assessment debt to fund infrastructure improvements as part of the development of residential housing in the District.

These debt issues are repayable out of special assessments on the parcels in the District, and are secured by liens on each parcel. The Association has no obligation for the repayment of the District's assessment debt, and accordingly, does not record this debt in its financial statements.

The outstanding balance of each of the District's debt issues was refunded by new debt issued on June 26, 2007 by the ABAG Financing Authority for Nonprofit Corporation. In July 2014, the outstanding balance of each of the District's debt issues from this June 2007 refunding was authorized by the Association's Board to be refinanced in fiscal year 2014-15 to provide for savings of over $2 million. The new debt was issued by the ABAG Financing Authority for Nonprofit Corporation in August 2014. The Association has no obligation for the repayment of these new revenue bonds; therefore it has not recorded this debt in its financial statements.

NOTE 6 - CONDUIT FINANCING PROGRAMS FOR MEMBERS

The Association assists members and other borrowers in obtaining financing through the issuance of revenue bonds, special assessment debt, certificates of participation in lease revenues and in straight leasing arrangements.

The underlying liability for the repayment of each of these issues rests with the borrower participating in that issue, and not with the Association, which acts only as a conduit in pooling each issue. For that reason, the Association has not recorded a liability for these issues. The Association sponsored the following outstanding conduit debt balances that were payable by their respective borrowers at June 30:

Type of Financing	Unpaid balance - June 30	
	2015	2014
Revenue Bonds	$136,325,000	$164,930,000
Certificates of Participation	8,950,000	14,920,000
Total	$145,275,000	$179,850,000

NOTE 7 – NET POSITION

Net Position is the excess of all the Association's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources, regardless of fund. The Association's Net Position is divided into the three captions described below:

Net Investment in Capital Assets is the current net book value of the Association's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of donations received by the Association. As of June 30, 2015, the entire amount in Restricted Net Position is restricted for the support of the Tranter-Leong Internship Program.

Unrestricted describes the portion of the Net Position which may be used for any Association purpose.

NOTE 8 – PENSION PLANS

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

A. *General Information about the Pension Plans*

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the Association's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Association resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

NOTE 8 – PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Tier I	Tier 2
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Monthly benefits, as a % of eligible compensation	2.5%	2.0%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	24.40%	6.25%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Association is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous	
	Tier I	Tier II
Contributions - employer	$1,241,608	$64,130
Contributions - employee (jointly paid by employer and employee)	399,752	
Contributions - employee		64,130

NOTE 8 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the Association reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Tier I	$11,353,987
Miscellaneous Tier II	3,686
Total Net Pension Liability	$11,357,673

The Association's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Association's proportion of the net pension liability was based on a projection of the Association's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Association's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous Tier I	Miscellaneous Tier II
Proportion - June 30, 2013	0.4050%	0.0002%
Proportion - June 30, 2014	0.4594%	0.0150%
Change - Increase (Decrease)	0.0544%	0.0148%

For the year ended June 30, 2015, the Association recognized pension expense of $425,547. At June 30, 2015, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Tier 1 & Tier 2	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	$1,305,738	$0
Differences between actual and expected experience	0	0
Changes in assumptions	0	0
Net differences between projected and actual earnings on pension plan investments	0	2,031,646
Adjustments due to differences in proportion	0	170,392
Total	$1,305,738	$2,202,038

NOTE 8 – PENSION PLANS (Continued)

Deferred outflows of $1,305,738 related to contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Miscellaneous Tier 1 & Tier 2
2015	$550,510
2016	550,510
2017	550,510
2018	550,508

Actuarial Assumptions – For the measurement period ended June 30, 2014, the total pension liabilities were determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions for both plans:

	Miscellaneous Tier I and Tier II
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Projected Salary Increase	Depending on age, service and type of employment
Investment Rate of Return	7.5% (2)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter
Mortality	Derived using CalPers Membership Data for all Funds (2)

(1) Net of pension plan investment and administrative expenses, including inflation.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS' website.

NOTE 8 – PENSION PLANS (Continued)

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 8 – PENSION PLANS (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the Association's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the Association's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous Tier I	Miscellaneous Tier II
1% Decrease	6.50%	-1.00%
Net Pension Liability	$16,781,696	$6,567
Current Discount Rate	7.50%	0.00%
Net Pension Liability	$11,353,987	$3,686
1% Increase	8.50%	1.00%
Net Pension Liability	$6,849,503	$1,295

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 9 – POST EMPLOYMENT HEALTH CARE BENEFITS

The Association follows the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB).

By Board resolution and through agreements with its labor unit, the Association provides certain health care benefits for retired employees (spouse and dependents are not included) under third-party insurance plans. A summary of these benefits is shown below:

Benefit Summary:

Eligibility	Service or disability retirement Age 50 & 5 years service Disability retire directly from ABAG under CalPERS	
Benefit: Tier 1 Hired < 7/1/2009	Retired < 9/1/94- 100% of Kaiser single basic premium Retired ≥ 9/1/94 -100% of Kaiser 2-party basic premium Same cap pre- & post-65 PEMHCA administration fee paid by ABAG	
Tier 2 Hired ≥ 7/1/2009	PEMHCA minimum PEMHCA administration fee paid by ABAG	
Medical After Retirement (MARA)	Tier 1 One time only option to enroll Must opt out of defined benefit medical plan ABAG contributes PEMHCA minimum if opt in MARA Open enrollment for MARA ended in 2013	Tier 2 Must enroll in MARA ABAG contributes $100/month to an individual MARA account for each non-management employee ABAG contributes $200/month to an individual MARA account for each management employee MARA not included in the OPEB evaluation
Medicare B Reimbursement[1]	Retired < 9/1/94 - 100% for retiree Retired ≥ 9/1/94 -100% for retiree and spouse	None
Surviving Spouse of Retiree	Same benefit continues to surviving spouse if retiree elects CalPERS survivor annuity	

[1] Tier 1 reflects plan amendment. Pre-amendment benefit does not include Medicare B Reimbursement.

As of June 30, 2015, approximately 20 participants were eligible to receive benefits.

NOTE 9 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.61% investment rate of return, (b) 3.25% projected annual salary increase, include inflation and (c) 5.0 – 8.3% health inflation increase. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The Association's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 22 year closed amortization period.

In accordance with the Association's budget, the annual required contribution (ARC) is to be funded throughout the year as a percentage of payroll. Concurrent with implementing Statement No. 45, the Association's Board passed a resolution to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administered by CalPERS, and is managed by an appointed board not under the control of Association Board. This Trust is not considered a component unit by the Association and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 9 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2015 the Association contributed $893,874 which represented 13.00% of the $6,871,000 of covered payroll. As a result, the Association has recorded the Net OPEB Obligation, the difference between the ARC and actual contributions, as presented below:

Net OPEB Obligation June 30, 2014	$599,976
Annual required contribution (ARC)	768,000
Interest on net OPEB obligation	46,000
Implied subsidy	(18,264)
Adjustment to annual required contribution	(100,061)
Annual OPEB cost	695,675
Contributions made:	
Contributions to CERBT	599,976
Association's portion of current year premiums paid	293,898
Total contributions	893,874
Change in net OPEB Liability	(198,199)
Net OPEB Obligation June 30, 2015	$401,777

The Net OPEB Obligation is included in the other accrued liabilities balance in the Statement of Net Position.

The Plan's annual required contributions and actual contributions for the last three fiscal years are set forth below:

Fiscal Year	Annual OPEB Cost (AOC)	Actual Contributions	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2013	$857,554	$800,395	93%	$666,720
6/30/2014	826,995	893,739	108%	599,976
6/30/2015	695,675	893,874	128%	401,777

NOTE 10 – RELOCATION OF HEADQUARTERS

The Association together with the Metropolitan Transportation Commission (MTC) will be relocated to San Francisco in early 2016. The relocation will enhance planning and research activity collaboration between the two agencies.

In February 2013, the Association entered into a Memorandum of Understanding (MOU) with the Bay Area Headquarters Authority (BAHA), the owner of the property in San Francisco. The key component of the MOU is the real estate exchange between the Association and BAHA wherein the Association grants to BAHA its entire condominium interest in the Joseph P. Bort MetroCenter, 101 8th Street Oakland (MetroCenter Condo) and BAHA grants to the Association a condominium interest to be created at 375 Beale Street, San Francisco (ABAG Condo). The MOU also spells out physical elements of the ABAG Condo, exchange requirements, ABAG's relocation expenses, use and occupancy of the ABAG Condo, a cap on ABAG's Common Expenses for the ABAG Condo, limitations on disposition of ABAG Condo, and handling of casualty events.

As part of the exchange agreement, the Association shall provide $4.2 million to BAHA for tenant improvements to the ABAG Condominium, solely from funds provided by MTC to the Association in accordance with the funding framework approved by MTC in June 2014. Under the funding framework, the Association acts as a conduit for the transfer of funds from MTC to BAHA. The transfers will occur between fiscal year 2013-14 to 2020-21. Fund transfers totaling $800 thousand for fiscal years 2014-15 and 2015-16 were made in fiscal year 2014-15.

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Federal and State Grant Programs

The Association participates in Federal and State grant programs. These programs have been audited by the Association's independent accountants through the fiscal year ended June 30, 2015 in accordance with the provisions of the Federal Single Audit Act, as amended, and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Association expects such amounts, if any, to be immaterial.

B. Potential Merging of Entities

On October 28, 2015 the governing bodies of ABAG and MTC (Metropolitan Transportation Commission) adopted resolutions that provided for the retention of a consultant to conduct a merger study and a merger implantation plan of ABAG and MTC to be completed by June 1, 2016. If the agencies agree to merge, ABAG may cease to exist as an independent entity. If the agencies do not agree to merge, the state mandated land use planning responsibilities may be transferred to MTC. Such a transfer would significantly alter the organizational and finance structure of ABAG.

Required Supplemental Information

Association of Bay Area Governments, a Cost-Sharing Defined Pension Plan
As of fiscal year ending June 30, 2015
Last 10 Years*

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

	Miscellaneous	
	Tier 1	**Tier 2**
	6/30/2014	**6/30/2014**
Plan's Proportion of the Net Pension Liability/Asset	0.18247%	0.00006%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$11,353,987	$3,686
Plan's Covered-Employee Payroll	$6,626,785	$603,786
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	171.33%	0.61%
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of the Plan's Total Pension Liability	72.25%	83.03%

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Association of Bay Area Governments, a Cost-Sharing Defined Pension Plan
As of fiscal year ending June 30, 2015
Last 10 Years*

SCHEDULE OF CONTRIBUTIONS

	Miscellaneous Tier 1 Fiscal Year 2014-2015		Miscellaneous Tier 2 Fiscal Year 2014-2015	
Actuarially determined contribution	$	1,241,608	$	64,130
Contributions in relation to the actuarially determined contributions		(1,241,608)		(64,130)
Contribution deficiency (excess)	$	-	$	-
Covered-employee payroll	$	6,626,785	$	603,786
Contributions as a percentage of covered-employee payroll		18.74%		10.62%

Notes to Schedule

Valuation date:	6/30/2013	6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on age, service and type of employment
Investment rate of return	7.5%, net of pension plan investment and administrative expenses, including inflation
Retirement age	55 yrs. Misc., 62 yrs. Tier 2
Mortality	The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2014 CalPERS Experience Study. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB.

Association of Bay Area Governments, Other Post Employment Benefits
As of fiscal year ending June 30, 2015
Last 3 Valuations

SCHEDULE OF FUNDING CONTRIBUTIONS

	Actuarial					
Valuation Date	Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (overfunded) Actual Liability as % of Covered Payroll
6/30/2009	$0	$4,346,000	$4,346,000	0.00%	$6,828,000	63.6%
6/30/2011	1,226,000	6,684,000	5,458,000	18.34%	6,684,000	81.7%
6/30/2013	2,754,000	7,675,000	4,921,000	35.88%	6,871,000	71.6%

ASSOCIATION OF BAY AREA GOVERNMENTS

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2015

This Page Left Intentionally Blank

ASSOCIATION OF BAY AREA GOVERNMENTS

SINGLE AUDIT REPORT
For The Year Ended June 30, 2015

TABLE OF CONTENTS

This Page Left Intentionally Blank

ASSOCIATION OF BAY AREA GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2015

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified?	____	Yes	X	None Reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified			
Internal control over major programs:				
• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified?	____	Yes	X	None Reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	____	Yes	X	No

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
20.205	Highway Planning and Construction Grant
66.202	Congressionally Mandated Grant
66.456	National Estuary Program
97.045	Cooperating Technical Partner Program

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? X Yes ____ No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated December 29, 2015 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit did not disclose any findings or questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –

Prepared by Management

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

Finding SA 2014-01: Timely Submittal of Required Reports

CFDA Number:	20.205, 66.456
CFDA Title:	Highway Planning and Construction National Estuary Program
Name of Federal Agency:	U.S. Department of Transportation U.S. Environmental Protection Agency
Name of pass-through Entity:	Metropolitan Transportation Commission

Criteria: Section 7.0 "Reports and Products Deliverable" of the Interagency Agreement between the Metropolitan Transportation Commission and the Association of Bay Area Governments (Association) for fiscal year 2013-2014 states progress reports are to be submitted no later than 15 days after the end of each quarter. The "Programmatic Conditions" of the Environmental Protection Agency (EPA) agreement state biannual progress reports are to be submitted on the 30th day of October and April during the lifetime of the project. Evidence of timely submission of progress reports should be retained by the Association.

Condition: During our testing of progress reports, we noted the following:

- In regards to the Highway Planning and Construction grant, no audit evidence existed of the progress reports for the quarters ended December 31, 2013 being submitted within the required 15 days after the end of each quarter. Furthermore, the report for the quarter ended March 31, 2014 was not submitted until May 6, 2014, which is 20 days after the required submittal date.
- For the National Estuary Program Grant, there was no audit evidence of the required biannual reports for fiscal year 2013-2014 being submitted on October 30, 2013 and April 30, 2014, as required by the grant agreement. Association staff and the EPA Project Manager were unable to find documentation to show when the reports were submitted. Progress reports for fiscal year 2013-2014 were resubmitted to EPA on July 25, 2014.

Effect: The Association is not in compliance with the grant agreements. Lack of compliance with the agreement could have a potential impact on future funding sources.

Cause: Per inquiry with staff, the Association and the Metropolitan Transportation Commission were continuously revising the due dates for the progress reports through meetings and other communications, resulting in a delay in submitting the requisite reports. Also, the Association was unable to provide any documentation illustrating when the reports for the National Estuary Program were submitted.

Recommendation: The Association should develop procedures to comply with all the reporting requirements of the federal grant and maintain evidence of submission accordingly.

Finding SA 2014-01: Timely Submittal of Required Reports (Continued)

View of Responsible Officials and Planned Corrective Actions:

- **Name of Contact Person:** Susan Hsieh, Assistant Finance Director, Duane Bay, Assistant Planning Director, and Paula Trigueros, Contract Manager.

- **Current Status:** Management concurred with the recommendation of the auditors in the June 30, 2014 report and, accordingly, advised all staff members responsible for grant reporting of the specified reporting deadlines and the requirement to maintain documentation of the dates on which reports are filed. Printed copies of report transmittal letters are now retained in the grant files. These procedures are currently in effect and have proven adequate to prevent recurrence of past compliance failures.

Finding SA2014-02 – Certification of Non-Suspension/Debarment

CFDA number:	20.205, 15.616
CFDA Title:	Highway Planning and Construction Clean Vessel Act
Name of Federal Agency:	U.S. Department of Transportation U.S. Department of the Interior
Name of Pass-Through Entity:	Metropolitan Transportation Commission California Department of Boating and Waterways

Criteria: When a non-federal entity enters into a covered transaction with a vendor, the non-federal entity must verify the vendor is not suspended or debarred or otherwise excluded. Furthermore, in regards to the Highway Planning Construction grant, Appendix D of the Interagency Agreement between the Metropolitan Transportation Commission and the Association of Bay Area Governments (Association) states that prior to executing a contract, the Association must obtain a certification from contractors to ensure the entity is not suspended or debarred or otherwise excluded.

Condition: During the audit, the Association was unable to provide documentation demonstrating it obtained certifications from vendors prior to entering into contracts with them, ensuring they were not debarred or suspended from any Federal department or agency. It also was unable to produce evidence the Association verified a vendor was not debarred and/or suspended, apart from obtaining certifications, prior to signing a contract with the party.

Effect: The Association is at risk of noncompliance due to the increased risk the vendors could be debarred or suspended. The Association is also not in compliance with the Interagency Agreement.

Cause: The Association did not retain documentation to illustrate it verified the vendors were not debarred or suspended prior to the award of a contract.

Recommendation: We recommend the Association ensure all current and future vendors funded by Federal grants are not debarred or suspended from participating in Federal grants. It must also maintain documentation illustrating such verification occurred prior to signing contracts with vendor.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)
Prepared by Management

View of Responsible Officials and Planned Corrective Actions

- **Name of contact person:** Susan Hsieh, Assistant Finance Director, Duane Bay, Assistant Planning Director, and Karen McDowell, Environmental Planner.
- **Current Status:** Management concurred with the recommendation of the auditors in the June 30, 2014 report and, accordingly, advised all staff members responsible for solicitation and awarding of grants, of the requirement to verify and document the verification of non-suspension or debarment of vendors before awarding of contracts requiring federal funds. The current year's audit did not disclose any recurrence of past compliance failures.

This Page Left Intentionally Blank

ASSOCIATION OF BAY AREA GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Identifying Number	Federal Expenditures
Department of Interior **Direct** Programs:			
Earthquake Hazards Reduction Program			
Bay Area Housing and Population Earthquake Risk	15.807	G13AP00034	$20,763
Local Government Resilience Toolkit	15.807	G14AP00066	85,000
Program Subtotal			105,763
U.S. Geological Survey - Research and Data Collection			
Loma Prieta Commemoration	15.808	G14AC00387	10,000
2011 USGS - Conference Support	15.808	G11AC20293	88,908
Program Subtotal			98,908
Subtotal Department of Interior **Direct** Programs			204,671
Department of Interior **Pass - Through** Programs:			
California Department of Boating and Waterways			
Clean Vessel Act Program			
Clean Vessel Act	15.616	00-107-744	163,567
Subtotal Department of Interior **Pass - Through** Programs			163,567
Total Department of Interior Programs			368,238
Department of Transportation **Pass - Through** Programs:			
Pass - Through the Metropolitan Transportation Commission			
Highway Planning and Construction Programs:			
Information Analysis and Planning Services	20.205	Not Available	2,323,890
Pass - Through the Metropolitan Transportation Commission			
Metropolitan Transportation Planning			
Information Analysis and Planning Services	20.505	Not Available	231,817
Total Department of Transportation **Pass - Through** Programs Subtotal:			2,555,707
U.S. Environmental Protection Agency **Direct** Programs			
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act			
EPA Estuary 2100	66.436	00T04701	128,463
Targeted Watersheds Grants			
EPA Green Infill / Clean SW	66.439	96932601	8,154
National Estuary Program			
EPA FY 13-14 Estuary	66.456	00T47801	473,510
Congressionally Mandated Projects			
Estuary 2100 Phase II	66.202	00T34101	588,429
The San Francisco Bay Water Quality Improvement Fund			
San Pablo Ave. Green SW Spine	66.126	00T68901	39,857
Flood 2.0 - Rebuilding Habitat & Shoreline Resilience	66.126	00T92401	376,081
Greener Pesticides for Cleaner Waterways	66.126	00T97901	37,430
EPA Mercury CPR	66.126	99T03401	25,075
Program Subtotal			478,443
Subtotal U.S. Environmental Protection Agency **Direct** Programs			1,676,999

(Continued)

ASSOCIATION OF BAY AREA GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Identifying Number	Federal Expenditures
U.S. Environmental Protection Agency **Pass - Through** Programs			
Pass - Through the California State Water Resources Board			
Capitalization Grants for Clean Water States Revolving Funds			
SRF Unified Bay & Delta Reporting	66.458	14818550	225,201
Pass - Through the Acquatic Science Center			
Regional Wetland Program Development Grant			
Aquatic Science Center Contract II	66.461	1034	8,805
Subtotal U.S. Environmental Protection Agency **Pass - Through** Programs			234,006
Total U.S. Environmental Protection Agency Programs			1,911,005
Department of Housing and Urban Development **Pass - Through** Programs:			
Pass - Through the Metropolitan Transportation Commission			
Sustainable Communities Regional Planning Grant Program			
HUD Grant	14.703	Not Available	75,000
Total Department of Housing and Urban Development **Pass - Through** Programs			75,000
Department of Homeland Security **Direct** Programs:			
Cooperating Technical Partners			
Regional Resilience Plan	97.045	EMW-2014-CA-00101	222,766
Total Department of Homeland Security **Direct** Programs			222,766
Total Expenditures of Federal Awards			$5,132,716

See notes to schedule of federal awards

ASSOCIATION OF BAY AREA GOVERNMENTS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2015

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the Association of Bay Area Governments (Association), California and its component units as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the Association by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the Association. The Schedule includes both of these types of Federal award programs when they occur.

NOTE 4 - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the Association provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
66.436	Section 104(b)(3) of the Clean Water Act	$ 32,035
66.458	Capitalization Grants for Clean Water States Revolving Funds	153,179
66.202	Congressionally Mandated Projects	529,230
66.126	The San Francisco Bay Water Quality Improvement Fund	332,922

This Page Left Intentionally Blank

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*

MAZE & ASSOCIATES

The Board of Directors
Association of Bay Area Governments,
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 basic financial statements of the Association of Bay Area Governments (Association) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2015. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Association'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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of Association'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 Association'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association'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.

We have also issued a separate Memorandum on Internal Control dated December 29, 2015 which is an integral part of our audit and should be read in conjunction with this report.

Association's Response to Findings

Association's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated December 29, 2015 which is an integral part of our audits and should be read in conjunction with this report. Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze & Associates

Pleasant Hill, California
December 29, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Honorable Members of the Executive Board of the
Association of Bay Area Governments, California

Report on Compliance for Each Major Federal Program

We have audited Association of Bay Area Governments (Associations) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2015. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal Program

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the Association as of and for the year ended June 30, 2015, and have issued our report thereon dated December 29, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Maze & Associates

Pleasant Hill, California
December 29, 2015

ASSOCIATION OF BAY AREA GOVERNMENTS
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED
JUNE 30, 2015

This Page Left Intentionally Blank

ASSOCIATION OF BAY AREA GOVERNMENTS
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For the Year Ended June 30, 2015

Table of Contents

This Page Left Intentionally Blank

MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

To the Executive Board of the
Association of Bay Area Governments
Oakland, California

In planning and performing our audit of the basic financial statements of the Association of Bay Area Governments (Association) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our 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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, Board of Directors, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
December 29, 2015

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

This Page Left Intentionally Blank

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2015-01: Current Organizational and Finance Structure Going Concern

As auditors of the Association, the Board has engaged us to perform an audit of the Association's financial statements and opine on the Association's financial statements and provide assurance to readers of the statements, including the Board, that the financial statements are prepared in accordance with generally accepted accounting principles. The Association's financial statements are prepared assuming the Association may not continue to operate in its current organizational and finance structure. We have been informed that subsequent to June 30, 2015, the Association and the Metropolitan Transportation Commission (MTC) have currently engaged an outside consultant to evaluate whether or not the two entities should merge. The evaluation is expected to be completed by June 2016. If the agencies agree to merge, the Association may cease to exist an independent entity; if they do not, other structural changes may be implemented.

Management's Response:

The members and staff of ABAG are committed to continuation of all current ABAG programs and activities without disruption, and it is expected that the current evaluation of the MTC/ABAG relationship will yield increased efficiency and benefits to the public that ABAG serves.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2015-02: UPCOMING GASB Pronouncements

The following comment represents new pronouncements taking affect next fiscal year 2015-2016. We have cited them here to keep you abreast of developments:

GASB 72 – *Fair Value Measurement and Application*

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is 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. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair Value Measurement

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. 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 the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

Fair Value Application

This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

Fair Value Disclosures

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

Management Response:

We are prepared to fully implement the requirements of GASB 72 in our financial reports for the year ending June 30, 2016, and we do not anticipate any significant changes in our financial statements and disclosures stemming from the implementation of GASB 72.

GASB 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

Issued in June 2015, the objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

How the Changes in This Statement Improve Financial Reporting

The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

Management Response:

We have no objections to the provisions of GASB 76, and we do not anticipate any changes in ABAG's application of Generally Accepted Accounting Principles, as a result of its implementation.

This Page Left Intentionally Blank

MAZE & ASSOCIATES

REQUIRED COMMUNICATIONS

To the Executive Board of the
Association of Bay Area Governments
Oakland, California

We have audited the basic financial statements of the Association of Bay Area Governments (Association) for the year ended June 30, 2015. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association of Bay Area Governments are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

GASB Statement No. 68 – ***Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W mazeassociates.com

The pronouncement became effective, and as disclosed in Note 1G to the financial statements required a prior period restatement for the cumulative effect on the financial statements.

GASB Statement No. 71 – ***Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68***

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine *all* such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

The pronouncement became effective, and as disclosed in Note 1G to the financial statements required a prior period restatement for the cumulative effect on the financial statements.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Association's financial statements were:

Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources: Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 8 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the Association. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Net OPEB Liability: Management's estimate of the net OPEB liability is disclosed in Note 9 to the financial statements and is based on actuarial study determined by a consultant, which is based on the experience of the Association. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Fair Value of Investments: As of June 30, 2015, the Association held approximately $8.5 million of cash and investments as measured by fair value as disclosed in Note 2 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2015. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2015.

Estimate of Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 3 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Unbilled Receivables: The Association has recorded unbilled receivables approximating $6.34 million. Actual billings and the ultimate collections may vary from this estimate.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all/certain such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated December 29, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters:

Other Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

******

This information is intended solely for the use of the Board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
December 29, 2015