ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area

ABAG

AGENDA

FINANCE AND PERSONNEL COMMITTEE

Thursday, March 16, 2017, 5:00 p.m. to 6:00 p.m.

Location:

Bay Area Metro Center
Board Room
375 Beale Street
San Francisco, California

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

Agenda and attachments available at abag.ca.gov

For information, contact Fred Castro, Clerk of the Board, at (415) 820 7913.

1. **CALL TO ORDER / ROLL CALL / CONFIRM QUORUM**
2. **PUBLIC COMMENT**

   INFORMATION
3. **COMMITTEE ANNOUNCEMENTS**

   INFORMATION
4. **APPROVAL OF ABAG FINANCE AND PERSONNEL COMMITTEE SUMMARY MINUTES OF MEETING ON JANUARY 19, 2017**

   ACTION

   Attachment: Summary Minutes of January 19, 2017
5. **REPORT ON FINANCIAL REPORTS FOR JANUARY 2017**

   ACTION

   Attachments: Memo Financial Reports; Indices
6. **REPORT ON PAYMENT OF MEMBERSHIP DUES FOR FISCAL YEAR 2016-2017**

   ACTION

   Attachment: Memo Membership Dues

7. REPORT ON AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2015-2016

ACTION

Attachments: Memo Audit Reports; Basic Financial Statements; Memorandum Internal Control; Single Audit Report

8. REPORT ON PROPOSED NEW JOINT POWERS AUTHORITY—ABAG FINANCE AUTHORITY

INFORMATION

Staff will report on a proposed new joint powers authority to be created by ABAG FAN and ABAG to serve as conduit issuer.

Attachments: Memo Description Conduit Issuer; Presentation ABAG Finance Authority Conduit Issuer

9. CLOSED SESSION

CONFERENCE WITH LABOR NEGOTIATORS

Agency designated representatives: Brad Paul, Acting Executive Director; Kenneth Moy, Legal Counsel; Courtney Ruby, Finance and Administrative Services Director; Marti Paschal, Assistant Director of Administrative Services

Employee organization: SEIU Local 1021

10. CLOSED SESSION

PUBLIC EMPLOYEE APPOINTMENT

Title: Post Consolidation Legal Counsel

11. ADJOURNMENT

The next regular meeting of the ABAG Finance and Personnel Committee is on May 18, 2017.

Submitted:

/s/ Courtney Ruby, Finance and Administrative Services Director

Date Submitted: March 10, 2017

Date Posted: March 14, 2017

SUMMARY MINUTES (DRAFT)

ABAG Finance and Personnel Committee Meeting
Thursday, January 19, 2017
Bay Area Metro Center
375 Beale Street, Yerba Buena CR
San Francisco, California

1. CALL TO ORDER / ROLL CALL / CONFIRM QUORUM

ABAG Finance and Personnel Committee Chair Karen Mitchoff, Supervisor, County of Contra Costa, called the meeting to order at about 5:02 p.m.

A quorum of the Committee was present at about 5:02 p.m.

Members Present

David Cortese, Supervisor, County of Santa Clara
Scott Haggerty, Supervisor, County of Alameda
Karen Mitchoff, Supervisor, County of Contra Costa—Vice Chair
Julie Pierce, Councilmember, City of Clayton—*Ex officio*
David Rabbitt, Supervisor, County of Sonoma—*Ex officio*
Greg Scharff, Mayor, City of Palo Alto

Members Absent

Pradeep Gupta, Mayor, City of South San Francisco

Staff Present

Brad Paul, Acting Executive Director
Kenneth Moy, Legal Counsel
Courtney Ruby, Director, Finance and Administrative Services
Marti Paschal, Administrative Services Director
Mike Hurtado, Financial Services Director
Sheelagh Flanagan, Senior Advisor to ABAG FAN

2. PUBLIC COMMENT

There was no public comment.

3. COMMITTEE ANNOUNCEMENTS

There were no committee announcements.

4. APPROVAL OF ABAG FINANCE AND PERSONNEL COMMITTEE SUMMARY MINUTES OF MEETING ON NOVEMBER 17, 2016

Chair Mitchoff recognized a motion by Julie Pierce, Councilmember, City of Clayton, which was seconded by David Rabbitt, Supervisor, County of Sonoma, to approve ABAG Finance and Personnel Committee summary minutes of meeting on November 17, 2016.

There was no discussion.

There was no public comment.

The aye votes were: Cortese, Mitchoff, Pierce, Rabbitt, Scharff.

The nay votes were: None.

Abstentions were: None.

Absent were: Gupta, Haggerty.

The motion passed unanimously.

5. REPORT ON FINANCIAL REPORT FOR NOVEMBER 2016

Courtney Ruby, Finance and Administrative Services Director, presented the Financial Report for November 2016.

Chair Mitchoff recognized a motion by Greg Scharff, Mayor, City of Palo Alto, which was seconded by Scott Haggerty, Supervisor, County of Alameda, to approve the financial report for November 2016.

Members discussed indirect costs, receivables, and membership dues.

There was no public comment.

The aye votes were: Cortese, Haggerty, Mitchoff, Pierce, Rabbitt, Scharff.

The nay votes were: None.

Abstentions were: None.

Absent were: Gupta.

The motion passed unanimously.

6. REPORT ON PAYMENT OF MEMBERSHIP DUES FOR FISCAL YEAR 2016-2017

Ruby presented the staff report on the payment of membership dues for Fiscal Year 2016-2017.

Members asked which member jurisdictions had not submitted their dues in order to follow up.

Ruby reported that receipt of dues was pending from the following member jurisdictions: Hayward, Santa Clara, Pittsburg, Vacaville, Vallejo, Marin County.

Members directed staff to report back on outreach to these member jurisdictions.

Chair Mitchoff recognized a motion by Pierce, which was seconded by Haggerty, to approve the report on payment of membership dues for fiscal year 2016-2017.

There was no public comment.

The aye votes were: Cortese, Haggerty, Mitchoff, Pierce, Rabbitt, Scharff.

The nay votes were: None.

Abstentions were: None.

Absent were: Gupta.

The motion passed unanimously.

7. REPORT ON CONTRACTS BETWEEN $20,000 AND $50,000

Ruby presented the staff report on contracts between $20,000 and $50,000.

Members discussed competitive solicitation process and contract scope of work.

Chair Mitchoff recognized a motion by Haggerty, which was seconded by Pierce, to approve the report on contracts between $20,000 and $50,000.

There was no public comment.

The aye votes were: Cortese, Haggerty, Mitchoff, Pierce, Rabbitt, Scharff.

The nay votes were: None.

Abstentions were: None.

Absent were: Gupta.

The motion passed unanimously.

8. PRESENTATION ON PROPOSED NEW JOINT POWERS AUTHORITY—ABAG FINANCE AUTHORITY

Michael Hurtado, Financial Services Director, and Sheelagh Flanagan, Senior Advisor to ABAG FAN, presented on a proposed new joint powers authority to be created by ABAG FAN and ABAG to serve as conduit issuer.

Members discussed the proposed new joint powers authority; composition of governing body; elected officials making financial decisions and conflict of interest; support for ABAG programs; Attorney General opinion on proposed new joint powers authority on raising funds and FPPC disclosure requirements; qualifications and responsibilities of governing body members; governing body member liability; new joint power authority operating capital, reserves and profits; communications with Metropolitan Transportation Commission.

Members directed staff to report back on the items discussed.

9. REPORT ON PATRICIA M. JONES SCHOLARSHIP FUND

Ruby reported on a request to establish a matching grant of $2,500 to the Patricia M. Jones Scholarship Fund with Hagar Services Coalition.

Members discussed establishing a matching grant for the Patricia M. Jones Scholarship Fund with Hagar Services Coalition.

Chair Mitchoff recognized a motion by Haggerty, which was seconded by Cortese, to approve a one-time contribution of $2,500 as a challenge grant for the Patricia M. Jones Institute for Leadership Engagement and Development Scholarship Fund, managed by Hagar Services Coalition, Inc.

There was no discussion.

There was no public comment.

The aye votes were: Cortese, Haggerty, Mitchoff, Pierce, Rabbitt, Scharff.

The nay votes were: None.

Abstentions were: None.

Absent were: Gupta.

The motion passed unanimously.

The Committee entered into Closed Session at about 6:08 p.m.

10. CLOSED SESSION

CONFERENCE WITH LABOR NEGOTIATORS

Agency designated representatives: Brad Paul, Acting Executive Director; Kenneth Moy, Legal Counsel; Courtney Ruby, Finance and Administrative Services Director; Marti Paschal, Administrative Services Director

Employee organization: SEIU Local 1021

The Committee returned into Open Session at about 6:15 p.m.

Chair Mitchoff announced that no reportable action was taken in Closed Session.

11. ADJOURNMENT

The meeting adjourned at about 6:15 p.m.

Submitted:

/s/ Courtney Ruby, Finance and Administrative Services Director

Date Submitted: February 6, 2017

Date Approved:

For information, contact Fred Castro, Clerk of the Board, at (415) 820 7913 or FredC@abag.ca.gov.

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

ABAG

Date: March 10, 2017

To: ABAG Finance and Personnel Committee

From: Courtney Ruby
Director of Finance and Administrative Services

Subject: **Financial Reports January 2017**

The following are highlights of the January 2017 financial reports.

Overall Summary

Expenses exceeded Revenue by $73 thousand for the seven months ended January 31, 2017. Of this amount, $70 thousand is attributable to a timing difference. A $50 thousand surplus is projected at year-end in the budget. Please refer to the **Table of Financial Report Data Elements** for fiscal year budget, year-to-date actual and projected fiscal year numbers.

The budget for FY 2016-17 was adopted in January 2016 and is currently under review. Expenses for SFEP are overstated as several projects were completed a head of time in fiscal year 2015-16. Additionally, due to the success of the BayRen program, PG&E has increased their rebate funding significantly.

Cash on Hand

The cash balance was $6.2 million at the end of January, 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 seven months of fiscal year 2016-17, 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 $7 million at the end of the fiscal year.

Receivables

At the end of January, total receivables amounted to $12.7 million which included $3.1 million of unbilled receivables (mainly attributed to SFEP's Integrated Regional Water Management Program (IRWMP) and $9.6 million (mainly attributed to IRWMP and BayREN) of grant and service program receivables. Receivables over 90 days past due were $1.6 million, including $1.3 million from the Department of Water Resources. All receivables are believed to be collectible. Figure 2 shows the comparison of receivables generated by grants and service programs over the current and prior fiscal year.

Revenues and Expenses

As of January 31, 2017, total revenue amounted to $20.9 million, which is 36 percent, of the projected revenue for the year of $58.2 million; Total expenses amounted to $20.9 million, which is 36 percent of the projected expenses for the year of $58.2 million;

Figure 3 presents a graphic comparison of the current month of January, the seven month year-to-date actual, and fiscal year projected revenues and expenses.

Figures 4 and 5 show year-to-date revenues and expenses by major categories. Grants revenue is 83% of total revenue, compared to 80% for the prior fiscal year. Pass-through and Consultant expense are 65% of total expenses, compared to 64% for the prior fiscal year.

Net Position/Fund Equity

Total fund equity was negative $7.9 million as of January 31, 2017. In compliance GASB with 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 the pension obligation and operations. Thus, the June fund equity for pension obligations is presented as a negative $12.1 million, and the accumulated fund equity from operations is presented as a positive $2.6 million in the financial reports. The restricted fund equity of $1.6 million 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.

Indirect Overhead Rate

After careful analysis of our ABAG overhead accounts, we projected and obtained an approval from EPA for an increase to our project overhead rate by 1.2% to 46.15% in FY 2016-17 (up from 44.95% in FY 2015-16).

The Agency's actual indirect overhead cost rate through January 2017 was 42.80%, which was 2.15 percentage points below the current adopted budget of 44.95% and 3.35% below the new rate of 46.15% approved by the EPA. Rate variances throughout the year are to be expected. Figure 7 shows a comparison between the actual indirect cost rate through January 31 and the budget and EPA approved rates 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 (SFEP), Bay Trail and POWER/Energy. SFEP, Bay Trail, and POWER/Energy are significantly out of line with the budget. For SFEP and Bay Trail, the actual progress of the projects is below projection because we have not been billed by subrecipients as it takes several weeks to know the actual progress due to the complex nature and multi-year duration of the projects. For POWER/Energy, the actual progress of the projects is above projection because BayRen Program paid out large amount of rebate in December.

Financial Outlook

The projection for fiscal year 2016-17 is for a surplus of revenues over expenses of $50,000.

***Correction to Financial Report presented January 19, 2017*:**

Receivables

At the end of November, total receivables amounted to $11.7 million which included $4.8 million of unbilled receivables (mainly attributed to SFEP's Integrated Regional Water Management Program (IRWMP) and $6.9 million (mainly attributed to IRWMP and BayREN) of grant and service program receivables. Receivables over 90 days past due were ~~$860 thousand~~ $1.6 million, including ~~$668 thousand~~ $1.3 million from the Department of Water Resources. All receivables are believed to be collectible. Figure 2 shows the comparison of receivables generated by grants and service programs over the current and prior fiscal year.

Recommended Action

The Finance and Personnel Committee is requested to approve the Financial Reports for January 2017.

Attachment

Indices

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

for January 2017

Projected percentage of budget is 58%.

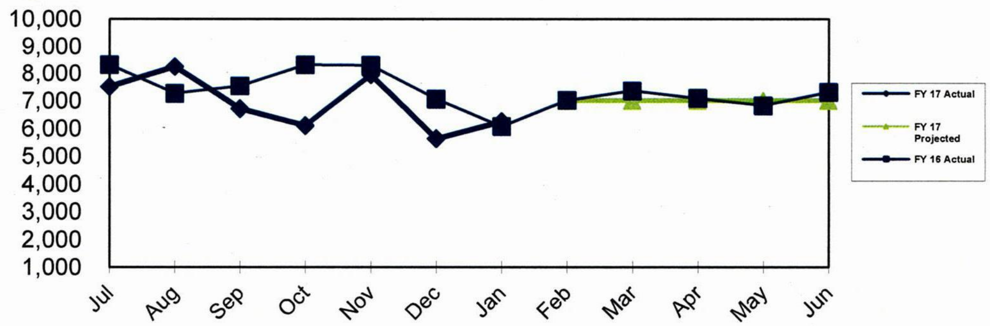
Description	Adopted Budget	Projected Fiscal Year Budget	Year-To-Date Actual	% of Projected Fiscal Year Budget
ASSETS				
Cash		7,000	6,244	
Receivables		14,000	12,690	
REVENUES				
Membership Dues	1,958	1,958	1,145	58%
Grants	51,717	51,717	17,404	34%
Charges for Services and Other	4,545	4,545	2,309	51%
Total Revenues	**58,220**	**58,220**	**20,858**	**36%**
EXPENSES				
Salaries and Benefits	11,828	11,828	6,205	52%
Pass-through and Consultant Expenses	44,011	44,011	13,604	31%
Other Expenses	2,331	2,331	1,122	48%
Total Expenses	**58,170**	**58,170**	**20,931**	**36%**
Change in Net Position	50	50	(73)	-146%
Beginning Net Position	(7,728)	(7,728)	(7,859)	102%
Ending Net Position	(7,678)	(7,678)	(7,932)	103%
NET POSITION BREAKDOWNS				
Unrestricted - Accumulated Operations Surplus	2,969	2,969	2,569	87%
Unrestricted - Pension Adjustment - June 30, 2016	(12,254)	(12,254)	(12,108)	99%
Restricted - Tenant Improvements	800	800	800	100%
Restricted - Other	857	857	807	94%
Total Net Position	(7,628)	(7,628)	(7,932)	104%
INDIRECT OVERHEAD				
Overhead Rate	44.95%	44.95%	42.80%	
Approved Rate			46.15%	

ABAG Financial Indices

Cash on Hand FY 16-17 ($'000)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 17 Actual	7,501	8,243	6,706	6,103	7,934	5,634	6,244					
FY 17 Projected								7,000	7,000	7,000	7,000	7,000
FY 16 Actual	8,316	7,258	7,533	8,312	8,298	7,052	6,073	7,010	7,353	7,079	6,818	7,300

Represents the sum total of cash deposited at banks or invested in money markets and the Local Agency Investment Fund. This chart shows fluctuation patterns of cash on hand for the current and the prior fiscal year.

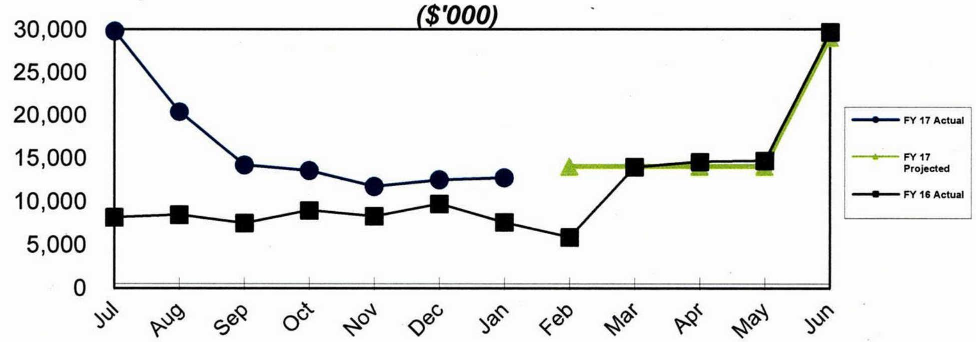
Figure 1--*Cash on Hand--FY 16 and FY 17 ($'000)*



Accounts Receivable FY 16-17 ($'000)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 17 Actual	29,781	20,360	14,161	13,526	11,711	12,461	12,690					
FY 17 Projected								14,000	14,000	14,000	14,000	29,000
FY 16 Actual	8,163	8,471	7,515	8,974	8,299	9,710	7,593	5,885	13,973	14,576	14,708	29,687

Accounts receivable include receivables generated by grants and service programs over two fiscal years. Due to accrual of unbilled receivables at year end on June 30, 2016, mainly attributed to IRWMP, receivables were higher in July and August and settles back to the expected level in September. Receivables up to February 2017 are expected to be higher than corresponding period in FY 16 due to increased activity attributable to IRWMP grants.

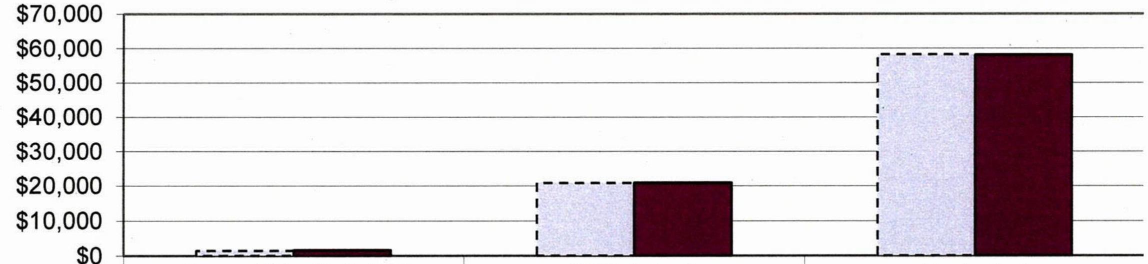
Figure 2--*Accounts Receivable--FY 16 and FY 17 ($'000)*



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	$1,549	$20,858	$58,220
Expenses	$1,710	$20,931	$58,170

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)*

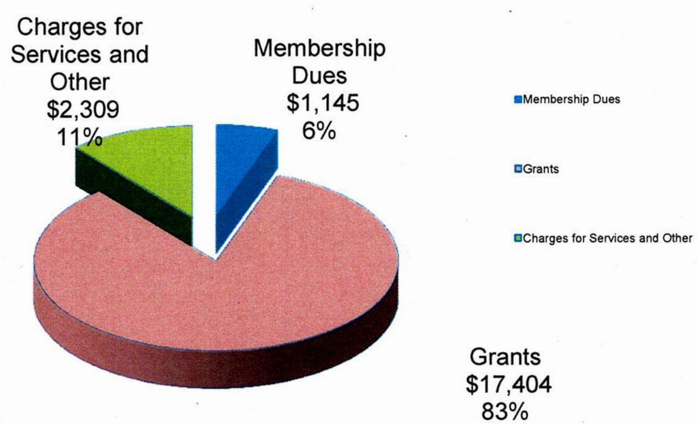
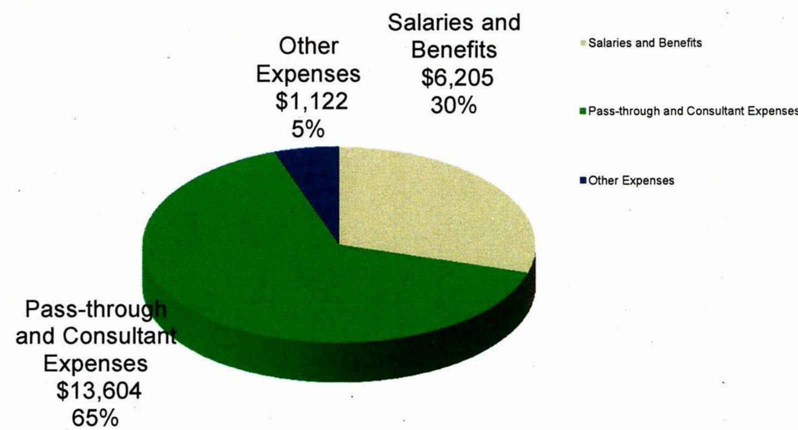


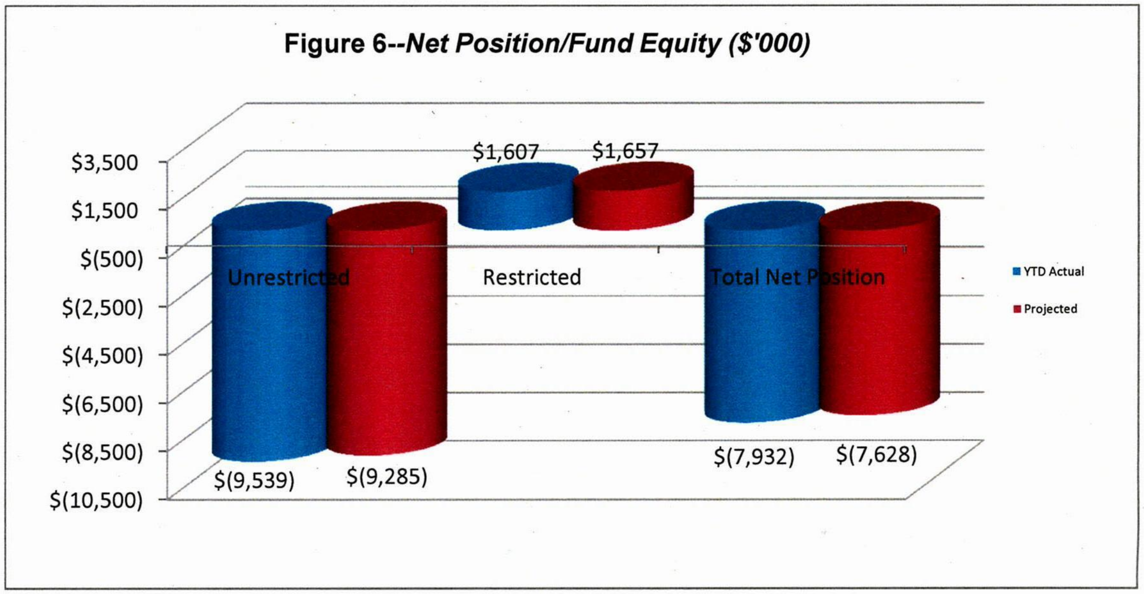
Figure 5--*Year-to-date Expenses by Category ($'000)*



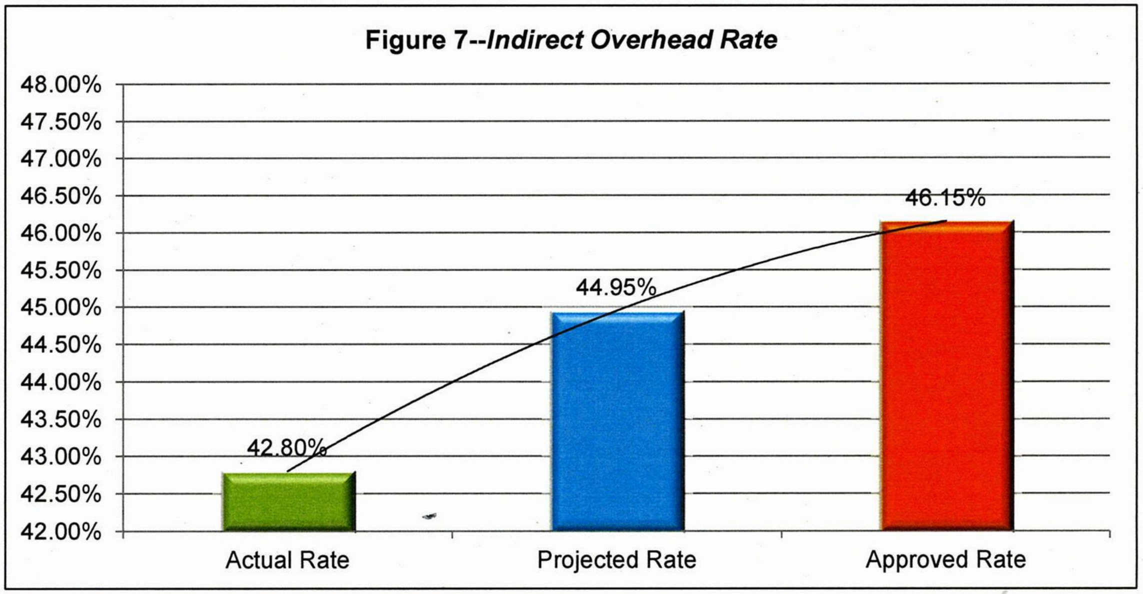
ABAG Financial Indices

Year-To-Date Actual

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 projected and approved 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 January 2017 / 58% of Year Elapsed

Program Description	Adopted Budget	Adjustments	Projected Fiscal Year Budget	Year-To-Date Revenues	Year-To-Date Expenses	YTD Surplus/ (Deficit)	% of Expense Budget	Comments (for variances 10% > or < from 58%)
			A	B	C	D = B - C	E = C/A	
Planning Services	4,398,001		4,398,001	2,143,136	2,143,320	(183)	49%	
San Francisco Estuary Partnership	31,023,411		31,023,411	3,003,379	2,990,189	13,191	10%	Expenses are expected to increase as subrecipients bill for the IRWMP project. Due to complexity and the multi-year duration of the projects it takes several weeks to know the actual progress of various projects. Further, SFEP is reviewing the budgets, and this may result in revised projections.
Disaster Recovery	866,296		866,296	414,222	414,348	(126)	48%	
Bay Trail	1,998,340		1,998,340	800,492	800,492	-	40%	Slower progress of projects at the beginning of the fiscal year for planning and construction grants due to weather, public process and delayed contracting. Expected to catch up in the later parts of the year.
Training Center, Web Hosting and Publications	280,000		280,000	7,557	4,055	3,502	1%	The budget did not anticipate the sale of the training center. The budgets are under review and a budget adjustment for this program will be proposed to reflect the current operations.
POWER/Energy	13,277,000		13,277,000	11,499,781	11,529,143	(29,362)	87%	BayRen Program runs on a calendar year basis. Larger amount of rebates were paid out in December 2016.
FAN Finance Authority	1,050,000		1,050,000	525,025	510,195	14,830	49%	
PLAN Corporation - Property & Liability Insurance Pool	2,450,000		2,450,000	1,177,209	1,177,209	-	48%	
SHARP - Worker's Comp Pool	150,000		150,000	66,061	66,061	-	44%	Expect expenses to increase towards year end as members claim reimbursements for loss prevention program expenditures.
Fiscal Agent Services	131,400		131,400	78,660	78,813	(153)	60%	
Communications/Legislative	660,000		660,000	332,361	332,361	-	50%	
Agency Administration	1,885,267		1,885,267	814,163	809,840	4,323	43%	Due to reduction in excecutive staff. Decrease in expenses appears reasonable.
Payroll Clearing	-		-	-	173,297	(173,297)	n/a	Expect the payroll clearing account to be close to breakeven towards year end.
Central Overhead	-		-	1,751,032	1,656,978	94,054	n/a	The expense of $1,656,978 is 50% of indirect costs of the $3,346k projection reported to EPA, so amount is reasonable.
Totals	**58,169,715**	-	**58,169,715**	**22,613,078**	**22,686,300**	**(73,222)**	**39%**	
			-	-	-			

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ABAG

Date: March 10, 2017

To: ABAG Finance and Personnel Committee

From: Courtney Ruby
Director of Finance and Administrative Services

Subject: **Payment of Membership Dues for Fiscal Year 2016-2017**

Executive Summary

Jurisdictions were invoiced for Fiscal Year 2016-17 membership dues in May 2016, payable on July 1, 2016. Out of a total billing of $1.96 million to 109 jurisdictions, $59 thousand was outstanding from 4 jurisdictions as of January 31, 2017. All outstanding balance has been collected as of early March 2017.

Compared to the prior year, out of a total billing of $1.89 million for Fiscal Year 2015-16 to 109 jurisdictions, $34 thousand was outstanding from 3 jurisdictions as of January 31, 2016.

Recommended Action

The Finance and Personnel Committee is requested to approve the staff report.

Attachment

None

Date: March 10, 2017

To: ABAG Finance and Personnel Committee

From: Courtney Ruby
Director of Finance and Administrative Services

Subject: **Audit Reports for the year-ended June 30, 2016**

The following are highlights of the ABAG audited financial statements and Required Communications to Management.

Financial Results

The reported financial health of the Association is confirmed in the audited Statement of Net Position. Implementation of new financial reporting standards in 2015 have made this statement more complex and difficult to interpret.

The Collective Net Pension Liability is $12,998,297. While this number is alarming in appearance, it is not a new liability. Net Pension Liability was reported on the face of the financial statement starting FY14/15. The recording of this pension liability causes the net position of the Association to be negative $7,512,305.

Contrary to financial picture depicted by pension obligations, the Association finished the fiscal year in a solid financial condition as it increased its accumulated net assets from operations by $206,822.

Auditors' Report and Disclosures

Our independent auditors, Maze & Associates issued an unmodified opinion on the financial statements. All footnote disclosures are consistent with prior year.

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's internal accounting controls or any disagreements with management regarding accounting policies and estimates.

Recommended Action

The Finance and Personnel Committee is requested to approve the staff report.

Attachment

Basic Financial Statements
Memorandum of Internal Control and Required Communications
Single Audit Report

ASSOCIATION OF
BAY AREA GOVERNMENTS
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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ASSOCIATION OF BAY AREA GOVERNMENTS
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

Table of Contents

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

The Executive Board
Association of Bay Area Governments
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component unit and each major fund, of the Association of Bay Area Governments (Association), as of and for the year ended June 30, 2016 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
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Pleasant Hill, CA 94523

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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 unit and each major fund of the Association as of June 30, 2016 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2017, 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
February 10, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Association of Bay Area Governments (Association) has issued the financial reports for fiscal year ending June 30, 2016 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 Association adopted Government Accounting Standards Board Statement 68 "Accounting and Reporting for Pensions" (GASB 68) beginning with the financial statements for the year ended June 30, 2015. GASB 68 requires recognition on the Statement of Net Position of the cumulative unfunded pension liability and recognition of related expense in the Statement of Activities. As a result, the Association carries deficit net position at June 30, 2016.

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") 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 2016 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Association's Total Assets were $38.75 million at June 30, 2016. At June 30, 2015, Total Assets were $18.25 million. Total Assets include Cash and Cash Equivalents of $7.67 million (down $822 thousand from the prior year), Federal, State and Local Grants Receivables of $29.69 million (up $21.26 million), Interest Receivables of $3 thousand (up $1 thousand), Prepaid Expenses and Other of $331 thousand (up $207 thousand) and Capital Assets net of Accumulated Depreciation of $1.06 million (down $145 thousand). Capital Assets include $800 thousand in tenant improvements to ABAG's condominium at 375 Beale Street, funded by the Metropolitan Transportation Commission (MTC) as part of the exchange agreement between ABAG and Bay Area Headquarters Authority (BAHA). The increase of $20.50 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 $56.61 million in FY 2016, while total program expenses were $58.47 million. This imbalance ($1.86 million) is offset by $1.90 million in Membership Dues, $158 thousand in unrestricted donations, and $16 thousand in interest income, all recorded as General Revenues totaling to $2.07 million. This yielded an improvement in net position of $207 thousand. The Association's total net position at June 30, 2016 was a deficit of $7.51 million.

- ABAG program operating revenues for FY 2016 were $56.59 million, including $10.12 million pass-through funds for vendors and rebate recipients. There were no operating revenues for ABAG Finance Corporation, and BALANCE Foundation operating revenues were $17 thousand.

- ABAG program operating expenses for FY 2016 were $58.36 million, including pass-through expenditures of $10.12 million and consultant services of $35.54 million. ABAG Finance Corporation operating expenses were $4 thousand and BALANCE Foundation operating expenses were $105 thousand.

- The San Francisco Bay Restoration Authority received a $38 thousand grant and spent $46 thousand for consultant services. The Authority ended the year with a net position of $2 thousand.

NONCURRENT ASSETS

At June 30, 2016, the Association had noncurrent asset of $1.06 million. Depreciable Capital Assets, net of accumulated depreciation were $262 thousand, a decrease of $145 thousand from the prior year. Additions to depreciable capital assets were $21 thousand and depreciation for the year was $166 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 was decreased by a payment of $73 thousand toward the $367 thousand owed for the office improvement project at the beginning of the year. This left a balance of $294 thousand for the office improvement project, of which $78 thousand is classified as the current portion, payable within the next fiscal year. There was no new debt incurred. Further detail of the Association's long term obligation is presented in Note 4 to the financial statements.

ORGANIZATIONAL CHANGES

On May 25, 2016, the governing bodies of ABAG and MTC voted to support a full functional staff consolidation and the pursuit of new governance options. This resolution retains the independence and statutory responsibilities of both boards and calls for new governance options to be considered by ABAG and MTC over the longer term. In the near term, both ABAG and MTC are developing a Contract for Services to officially consolidate the two staffs under the MTC executive director and to continue funding ABAG's projects and activities. Under the Contract of Services the organization and the financial structure of ABAG will not significantly change and ABAG will continue to exist as a separate entity.

MAJOR PROGRAM INITIATIVES IN FY 2016 AND OUTLOOK FOR FY 2017

We are happy to report the following accomplishments in fiscal year 2016 and goals for fiscal year 2017:

PLANNING AND RESEARCH PROGRAMS

Over the last five decades, ABAG has steadily strengthened its practices as a leader of collaborative regional land use planning, by expanding our range of partners and extending the breadth and depth of topics that influence local and regional land use decisions, the Planning and Research Department continues to address sustainability, equity and resilience in the region. In 2016 we continued the update of *Plan Bay Area 2017*, including the development of land use scenarios and an implementation action plan.

ABAG continued to champion inclusion of two additional priorities for *Plan Bay Area*, resilience and economic development. On the resilience front, federal and foundation funding helped us to assist local jurisdictions develop local hazard mitigation plans. On the economic development front, we continued to consolidate a consensus about regional priorities in collaboration with economic development organizations.

Working closely with local jurisdictions, Congestion Management Agencies (CMAs), and MTC, ABAG provided 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.

ABAG continued to support efforts to retain and enhance the qualities of our natural environment and agricultural lands through the Priority Conservation Areas (PCAs), the San Francisco Bay Trail, the San Francisco Bay Area Water Trail, and the successful passage of Measure AA.

ABAG produced *People, Places, Prosperity* to provide context for the regional dialogue that is part of the development of *Plan Bay Area 2040*. This report highlights the activities ABAG has undertaken in partnership with local governments, regional agencies, business groups, community organizations and other stakeholders to advance implementation of a land use pattern in the Bay Area that will promote regional economic vitality, increase housing choices and affordability, build healthy and resilient communities, and protect and enhance the regional natural assets. *People, Places, Prosperity* provides a comprehensive look at the ways in which economic, housing and environmental issues relate to one another and how they are currently affecting local communities and the region as a whole.

Priority Development Area Implementation

ABAG staff will continue to work with Bay Area jurisdictions to develop and implement PDA plans, develop and distribute tools to increase feasibility of growth consistent with local visions, and integrate housing, resilience, economic development, and urban greening into the PDA program. PDAs are the organizing framework for *Plan Bay Area 2040* implementation and are expected to accommodate most of the Bay Area's new homes and jobs. The Plan's major investments in planning assistance and transportation projects are focused in the PDAs, but significant obstacles remain to achieving planned growth. These obstacles include lower-than-anticipated public and private investment, displacement pressure on current residents and businesses, declining middle-wage jobs, and the risk of natural hazards. Continuing the work of 2016 into 2017, ABAG staff will continue to:

- Provide technical assistance and administrative oversight for each PDA planning grant made to a local jurisdiction. These grants support the development and adoption of specific plans that create walkable, mixed-use communities close to transit.
- Obtain funding to support planning and capital projects that address specific PDA implementation obstacles not addressed through existing programs.

- Provide technical assistance to help local jurisdictions take advantage of State legislation that increases the efficiency of the development entitlement process for projects within PDAs.
- Launch a website to help local staff and developers identify PDA projects eligible for entitlement efficiency and utilize these provisions to create development consistent with local plans.
- Build on its *Placemaking in the Bay Area* report to provide best practices and targeted technical assistance to help member jurisdictions create successful places that are lively and inclusive, economically vital, and capitalize on community assets.
- Work to address common challenges with corridor jurisdictions, CMAs, transit agencies, and other partners, especially through the Grand Boulevard Initiative in the west bay and the East Bay Corridors Initiative. Working groups will focus on implementing or developing funding for green streets implementation, seismic safety retrofits of older apartment buildings, public placemaking, and the development of pipeline housing and infrastructure projects.

Housing Production and Affordability

ABAG continued to support new funding source development for affordable housing and to remove obstacles to jurisdictions' implementation of local infill development objectives.

ABAG staff will continue to work with MTC to use existing resources to incentivize and support infill housing production, and continue to identify and publicize replicable local effective practices that address economic displacement due to new development.

Staff will also continue to collect and make publically available information about local jurisdictions' progress toward housing production targets, particularly affordably-priced housing; as well as adoption of local housing policies that affect production, preservation and residency protections.

Economic Development

Based on the regional economic development framework developed in 2014-2015, ABAG staff continued to work on establishing a regional Economic Development District (EDD) as well as an accompanying Comprehensive Economic Development Strategy (CEDS). The purpose of the EDD will be to strengthen the competitiveness of the regional economy, enhance local business districts in PDAs, support the vitality of industrial districts, preserve and increase the number of middle-wage jobs and expand access to job opportunities for all Bay Area residents. In addition to meeting these goals of economic vitality, the CEDS analysis also addresses interlinkages between environmental and equity goals of *Plan Bay Area* and economic vitality. The CEDS is produced under oversight of an Economic Strategy Committee with representation from local jurisdictions, and local and subregional economic and workforce development organizations.

ABAG and MTC have sponsored an inventory of industrial land in the region, which has led to the recommendation of adding Priority Production Areas as a possible tool for considering the preservation of critical industrial space where in-fill development is occurring. Industrial land and goods movement is an economic development initiative that will continue in 2017/2018. MTC has sponsored a series of studies on goods movement, the most recent of which looked at goods movement needs beyond the 9-county bay area.

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. The program's primary concerns are the vulnerability of the region's housing stock to earthquakes and flooding, the vulnerability of interconnected infrastructure systems which support the region's economy, and the importance of collaborative regional resilience planning. ABAG's work priorities are:

- Launching a Regional Lifelines Council to improve coordination and collaboration among local jurisdictions to address natural hazard threats to utility service continuity—threats to water, power, communications, and sanitation from earthquakes, fires, drought and sea level rise.
- Supporting member cities and counties in developing innovative local resilience plans that meet the requirements of a local hazard mitigation plan and are coordinated with other local plans.
- Introducing resilience perspectives, adaptive climate action, social justice measures, and disaster mitigation into the 2017 *Plan Bay Area.*
- Fostering a resilience community in the Bay Area that identifies and develops local champions who have the opportunity to connect with and learn from one another, and have the tools to carry resilience work forward locally and regionally.
- Providing in-depth assistance to help member jurisdictions overcome the barriers of limited resources and technical expertise by developing resilience implementation tools and guidance and 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.
- Continuing to support cities in the East Bay Corridor Initiative with technical and policy assistance on soft-story retrofit ordinances. Implementation programs to create safer housing for residents will serve as model practice in other Bay Area communities.
- Promoting 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

Regional planning strategies can help protect and maintain our natural habitat, water resources, agricultural land, and open space.

San Francisco Bay Trail & San Francisco Bay Area Water Trail

The San Francisco Bay Trail, now in its 27th year, 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. The trail extends over 500 miles to link the shoreline of nine counties, passing through 47 cities and crossing seven toll bridges. Thus far 350 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. Twenty nine sites have now been officially designated as part of the Water Trail system, with a potential for over 100 sites. ABAG plays a critical role in implementing this regional trail in partnership with BCDC, the California Division of Boating and Waterways and the primary funder, the State Coastal Conservancy.

Priorities for both the Bay Trail and the Water Trail include:

- Managing planning and construction grants, and awarding new grants.
- Expanding partnerships with private corporations and other organizations for specific gap closures.
- Participating in working groups addressing sea level rise such as Adapting to Rising Tides.
- Designating and improving Water Trail sites.
- Publishing project updates and participating in trail dedications and other public events.
- Public outreach to promote trail usage and supporting environmental education, public health and tourism.

Priority Conservation Areas —Priority Conservation Areas (PCAs) complement PDAs by identifying locations with high ecological, recreational, and economic value. To date, more than 165 locally-selected PCAs populate this useful coordination framework. Adoption of *Plan Bay Area* set the stage for implementation activities, including:

- Through the One Bay Area Grant (OBAG) PCA Grant Pilot Program, ABAG and MTC are assisting local jurisdictions and CMAs in implementing a second round of funding through a $16.4 million program to support projects in PCAs. The agencies are also administering $8.2 million directly through four CMAs in North Bay counties and $8.2 million through the State Coastal Conservancy for the rest of the Bay Area.

- ABAG, in partnership with key open space entities, updated the PCA framework to further define the role of different kinds of PCAs to support habitat, agriculture, urban greening, recreation, and various ecological functions, and has designated many new PCAs.

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 developed alternative scenarios for the *Plan Bay Area 2040*.

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 build on the model structure for the employment, income, and output forecasts for the region, accepted by the Executive Board in February 2016. In-house analysis of household formation and income distribution are additional elements of the regional forecast. The ABAG model based on the REMI structure will be used in FY 2017/2018 to better understand likely short-term economic growth patterns in the region and to look at short- and long-term consequences of outside changes, such as shifts in Federal funding or a sudden event storm or earthquake.

Data Services

ABAG staff support local government through assisting in providing and updating data needed for planning. Research staff have worked with the regional planners to improve baseline data on recent construction and permits. As ABAG and MTC consolidate, ABAG staff will work with MTC analytic staff to incorporate unique data sets into a larger system and to improve public access to data.

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, for example, releasing an inventory of all housing sites identified in local Housing Elements for each jurisdiction's General Plan.

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, 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 Bay Area Planning Directors' Association.

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:

- Released the most comprehensive report for the Estuary, using the best available science and the most recent data to assess the status of 33 indicators of health. The *State of the Estuary 2015 Report* was released in September.
- Managed $73 million in multi-benefit water quality and drought response projects across the region through the Integrated Regional Water Management Plan.
- Partnered with the Coastal Conservancy and ABAG Finance Department to staff the San Francisco Bay Restoration Authority. On June 7th, over 70% of voters approved a $12 parcel tax to fund wetland restoration in the San Francisco Bay. The measure will generate $25 million per year for the next 20 years and the Restoration Authority is responsible for distributing those funds through grants.
- Completed GreenPlan Bay Area, a collaborative effort between San Francisco Estuary Partnership, San Francisco Estuary Institute and Bay Area municipalities to develop and pilot the use of a watershed-based green infrastructure planning tool.
- Completed a 5-year program review by National Estuaries Program EPA staff. SFEP passed its evaluation and continues to be eligible for funding under the Clean Water Act Section 320. The evaluation letter pointed out that SFEP "catalyzes and builds on EPA's core programs, leverages significant resources, and builds collaborative partnerships in many areas that further the goals of its CCMP."
- Received funding from EPA for two new collaborative efforts: studying the impacts of ocean acidification on the Bay, and advancing mapping and implementation of transition zones.
- Planned and executed the highly successful State of the Estuary Conference. The Conference was held in Oakland in September 2015 with over 800 attendees.
- Continued public outreach efforts with the 23rd year of publication of our award-winning ESTUARY News magazine.

New and ongoing projects include:

- Continuing our $5 million partnership with seven East Bay cities, having secured funds to build green storm water treatment devices to improve water quality and quality of life along San Pablo Avenue.
- Undertaking a major revision of the *Comprehensive Conservation and Management Plan*, the regional collaborative vision for the future of the San Francisco Estuary.
- Planning for the 2016 Bay-Delta Science Conference in partnership with the Delta Science Program.
- Expanding the Clean Vessel Act Program with new funding and new initiatives. The Program focuses on reducing water quality impacts by undertaking outreach and education efforts with boaters to prevent sewage discharge.
- Providing technical support services to the Santa Clara Valley Water District, Alameda County Flood Control Program, Caltrans, Marin County, and the Sonoma County Water Agency.
- 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 nearly 800 member accounts and arranges for it to be delivered to the PG&E system for distribution. The primary goal of ABAG POWER's Natural Gas Program is to provide both cost savings and price stability. Additional objectives currently 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. In addition, the Committee will continue to investigate strategic opportunities related to environmentally friendly substitutes for natural gas such as biogas or biomethane.

- 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).

Other ABAG Energy Initiatives:

The San Francisco Bay Area Regional Energy Network (BayREN)

The BayREN was initially approved as an energy-efficiency pilot for two years, with a one year extension. The California Public Utilities Commission (CPUC) recently moved to a 'Rolling Portfolio' process and the BayREN's funding was extended through 2025, subject to annual adjustments. 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 $9 million in incentives to Bay Area homeowners, averaging roughly 200 project reservations per month throughout 2016.

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 repeatedly received millions of 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. This includes collaboration with state and regional agencies to encourage local adoption of codes necessary to meet the state's climate action goals. For example, BayREN expects to continue collaborative efforts with the California Energy Commission (CEC), the Bay Area Air Quality Management District (BAAQMD) and the Bay Area Regional Collaborative (BARC) to develop an ordinance requiring solar photovoltaic technologies on the construction of new properties in designated areas.

4. Financing for Energy Efficiency Projects

Commercial PACE: Property Assessed Clean Energy (PACE) financing 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. The BayREN program works to educate contractors and building owners on this financing tool.

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 within the BayREN region with at least 5 units, who undertake energy efficiency 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.

BayREN Integrated Commercial Retrofits (BRICR)

In the past year, ABAG was awarded a Department of Energy (DOE) grant to assist in the creation of an open-source database tool to efficiently identify buildings throughout the region that may be ideal for energy-efficient upgrades. ABAG will work with the San Francisco Department of Environment, Lawrence Berkeley National Laboratory (LBNL), the National Renewable Energy Laboratory (NREL), and other local BayREN agencies to design and test the tool.

INSURANCE POOL PROGRAMS

ABAG Pooled Liability Assurance Network (PLAN) Corporation provides property, liability and crime insurance coverage to 28 cities and towns in the greater Bay Area under a pooled risk sharing agreement. In addition to PLAN, the Shared Agency Risk Pool (SHARP) Program provides affordable Workers' Compensation coverage to its participating members.

In fiscal year 2016, PLAN invested $1.23 million in its Risk Management Best Practices Program, which focuses on loss control and safety. PLAN also provided its members Risk Management and Loss Control consulting services, as well as claims administration services that aligned with individualized strategic goals defined by each member. This year's focus was Playground Safety Best Practices as well as reducing loss frequency in the public works sector (e.g. sewer claim prevention, sidewalk safety). In 2015, PLAN also continued its ongoing training efforts on contractual risk transfer (contracting risk).

PLAN's annual Sewer Summit continues to be a success, with record attendance this year and demand for the event continuing to grow. The Urban Forest Conference was also successful and well-attended, with specific focus on drought and severe weather implications to the urban forest environment.

PLAN also conducted a *Risk Awareness Survey* which provided members with valuable information on safety and risk management temperament, and behaviors and attitudes within member agencies.

PLAN's financial performance continues to reflect ongoing efforts to reduce claim frequency and manage claim severity. In addition to maintaining focus on core competencies, PLAN is also focused on succession planning with the impending retirement of the Risk Manager.

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 and for profit partners serving the public interest. To date, the Authority has provided over $8 billion in low cost investment capital for projects in more than 240 local jurisdictions. The Authority 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 Authority 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.

In 2016, a new management team was installed in the Authority, with a mandate to explore new avenues of service in the financing of municipal and special district projects. Under this new management, the Authority will continue to service its outstanding portfolio of conduit debt and continue the administration of existing community facilities and special assessment districts.

ABAG TRAINING CENTER

The ABAG Training Center program which was an ABAG service program from 1979 was sold to our partner, Safety Compliance Management (SCM) during the year.

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 reporting, cash management, investment management, debt issuance, grants management, and other related financial support services. Over the past year, several grants furthering sustainability have been awarded, requiring substantial financial services. These included grants for promoting and incentivizing the energy efficiency of homes and the installation of enhancements such as insulation, double-paned windows and solar panels. Other grants focused on water quality enhancements of the San Francisco Bay and Delta through water recycling, creek cleanups, and stormwater capture.

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 actively serves members by providing a platform for them to work collaboratively to influence legislation that impacts local governments throughout the region. Approximately 30 state bills were reviewed by the Committee during the 2016 Legislative Session.

ABAG's L&GO Committee actively supported legislation related to land use, housing, hazardous waste disposal, energy and water efficiency, and disaster resiliency. The Committee supported AB 2406 (Tony Thurmond) Housing: Junior Accessory Dwelling Units that was chaptered into law, as well as SB 1030 (Mike McGuire) Sonoma County Regional Climate Protection Authority that became law. The Committee also pursued Water Efficiency Financing Legislation in 2016 authored by ABAG POWER.

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

In fiscal year 2017, it is anticipated that the L&GO Committee will:

- Continue to pursue legislation that provides resources and incentives for planning, infrastructure and services to assist local governments, as well as State and Federal legislation establishing innovative financing and project delivery mechanisms.

- 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.

- Continue to monitor implementation of the Cap and Trade Program.

- Increase focus on resiliency.

- Continue to seek voter threshold reduction for infrastructure taxes and bonds statewide and locally.

COMMUNICATIONS

The ABAG Communications Department is instrumental in helping to promote ABAG programs and services through newsletters, website articles, twitter announcements, reports, conferences, and media outreach. In 2015, the department worked with all internal programs to promote ABAG's mission and to inform and engage members in relevant programs and activities. Major efforts included regional conferences and workshops, publications, media relations, and web outreach centered on sustainable growth, economic and infrastructure resilience, and creating complete communities, as well as municipal insurance and energy programs.

Activities included:

- Releasing of a comprehensively updated website with a major overhaul in appearance and content. This extensive update increases access to all ABAG programs, projects, initiatives, and resources in a more attractive, user-friendly format.
- Working with the Planning and Research Department to release several publications, including the *State of the Region and People, Places, and Prosperity*; implementing *Plan Bay Area* outreach and public engagement strategies; expanding outreach to ABAG General Assembly delegates and member staffs to facilitate better use of ABAG programs and services.

- Convening the Getting Ready for El Niño Briefing in collaboration with the California Office of Emergency Services, helping inform cities and counties on how to be resilient in the face of an anticipated strong El Niño event. Attendees learned about the actions each city needs to take to prepare for El Niño, available resources, preparations by utilities, and what the State can offer cities and counties. In support of these activities, the Communications Group provided conference planning and coordination for the workshop held in December 2015.
- Providing updates on ABAG initiatives, programs, and services through online and e-distributed publications. *ABAG Update* is an online monthly e-newsletter, sent to both members and interested parties. The ABAG website news section featured the latest agency trends and events. Media coverage included articles and TV and radio interviews on agency-wide subjects and other related regional perspectives.

In fiscal year 2017, the Communications Group will continue to:

- Expand the methods and tools used to communicate the full breadth of ABAG programs and activities to our member cities, towns, and counties, key stakeholders and the public.
- Conduct outreach to ABAG General Assembly' delegates and member staffs via the county-wide delegate meetings.
- Examine ways to expand discussion of ABAG activities and programs at the General Assembly and facilitate increased access to ABAG programs, projects, initiatives and resources, through comprehensive update of the website and use of social media.

SAN FRANCISCO BAY RESTORATION AUTHORITY

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.

In June 2016, the Authority placed a regional parcel tax, Measure AA, on the ballot and it passed. The passage of the Measure demonstrated public support for the restoration and preservation needs of the Bay and Delta and the role of the Authority in meeting those needs. The Authority will begin receiving the tax revenues in the fall of 2017, fiscal year 2018.

In fiscal year 2017 the Authority will begin grant making operations for the restoration and enhancement of San Francisco Bay and its shoreline. While the Authority has laid the ground-work for the eventual administration of the Measure, adopting grant program guidelines as well as procedures for the Advisory Committee and Independent Citizens Oversight Committee, much work remains to facilitate efficient and effective use of Measure AA funds. The following are the main activities in the development of the grant making functions, both in program and tax/fiscal operations:

- Develop a Joint Powers Agreement (JPA).
- Develop and adopt a multi-year workplan and budget.
- Develop internal control policies and procedures including financial tracking and oversight mechanisms.
- Develop Board Policies.
- Develop Citizens Oversight Committee Policies.
- Develop contract mechanisms (grant agreements, billing mechanisms/materials).
- Develop Request for Proposals (RFP) process.

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 Courtney Ruby, ABAG Finance Director, Association of Bay Area Governments, 375 Beale Street, Suite 700, San Francisco, California 94105.

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ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF NET POSITION
JUNE 30, 2016

	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	$7,299,589	$27,453	$338,091	$7,665,133	$2,101
Receivables:					
Federal, State and Local Grants	29,681,393		4,069	29,685,462	
Interest	3,016		342	3,358	
Prepaid Expenses and Other	325,570		5,000	330,570	
Total Current Assets	37,309,568	27,453	347,502	37,684,523	2,101
Noncurrent Assets					
Non-Depreciable Capital Assets (Note 3)	800,000			800,000	
Capital Assets, Net of Accumulated Depreciation (Note 3)	262,441			262,441	
Total Assets	38,372,009	27,453	347,502	38,746,964	2,101
DEFERRED OUTFLOWS					
Deferred Outflows Related to Pension (Note 8)	2,078,247			2,078,247	
Total Deferred Outflows	2,078,247			2,078,247	
LIABILITIES					
Current Liabilities					
Accounts Payable	26,438,233	453	27,332	26,466,018	
Compensated Absences (Note 1E)	357,523			357,523	
Other Accrued Liabilities	397,650			397,650	
Current Portion of Long-Term Obligations (Note 4)	77,747			77,747	
Unearned Revenue	6,173,403			6,173,403	
Total Current Liabilities	33,444,556	453	27,332	33,472,341	
Noncurrent Liabilities					
Compensated Absences, Noncurrent (Note 1E)	173,144			173,144	
Collective Net Pension Liability (Note 8)	12,998,297			12,998,297	
Net OPEB Obligation (Note 9)	289,511			289,511	
Long-Term Obligations, Net of Current Portion (Note 4)	216,000			216,000	
Total Noncurrent Liabilities	13,676,952			13,676,952	
Total Liabilities	47,121,508	453	27,332	47,149,293	
DEFERRED INFLOWS					
Deferred Inflows Related to Pension (Note 8)	1,188,223			1,188,223	
Total Deferred Inflows	1,188,223			1,188,223	
NET POSITION (Note 7)					
Net Investment in Capital Assets	768,694			768,694	
Restricted			249,657	249,657	2,101
Unrestricted	(8,628,169)	27,000	70,513	(8,530,656)	
Total Net Position	($7,859,475)	$27,000	$320,170	($7,512,305)	$2,101

See accompanying notes to basic financial statements

ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
PROGRAM REVENUES					
Operating Grants and Contributions:					
Grants	$51,700,177			$51,700,177	
Subtotal	51,700,177			51,700,177	
Charges for Services					
Reimbursements	4,662,581	$162	$16,779	4,679,522	
Other	226,593			226,593	
Subtotal	4,889,174	162	16,779	4,906,115	
Total Program Revenues	56,589,351	162	16,779	56,606,292	
PROGRAM EXPENSES					
Salaries and Related Benefits	10,818,257			10,818,257	
Consultant Services	35,537,963	4,132	85,485	35,627,580	$45,503
Pass-through Awards	10,120,973			10,120,973	
Equipment, Maintenance and Supplies	103,822			103,822	
Outside Printing Costs	77,895		68	77,963	
Conference and Meeting Costs	218,371		400	218,771	
Depreciation (Note 3)	166,035			166,035	
Building Maintenance	286,768			286,768	
Postage	10,970			10,970	
Insurance	159,676			159,676	
Telephone	83,845			83,845	
Utilities	135,824			135,824	
Committee	85,200			85,200	
Other	485,000		19,267	504,267	
Interest Expense	70,352	10		70,362	
Total Program Expenses	58,360,951	4,142	105,220	58,470,313	45,503
Net Program Loss	(1,771,600)	(3,980)	(88,441)	(1,864,021)	(45,503)
GENERAL REVENUES					
Membership Dues	1,896,480			1,896,480	
Donations - Unrestricted	95,815		62,495	158,310	38,000
Interest Income	14,815	24	1,214	16,053	3
Total General Revenues	2,007,110	24	63,709	2,070,843	38,003
Change in Net Position	235,510	(3,956)	(24,732)	206,822	(7,500)
Net Position-Beginning	(8,094,985)	30,956	344,902	(7,719,127)	9,601
Net Position-Ending	($7,859,475)	$27,000	$320,170	($7,512,305)	$2,101

See accompanying notes to basic financial statements

ASSOCIATION OF BAY AREA GOVERNMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Association of Bay Area Governments	ABAG Finance Corporation	BALANCE Foundation	Total	SF Bay Restoration Authority
CASH FLOWS FROM OPERATING ACTIVITIES					
Grant receipts	$30,565,113			$30,565,113	
Receipts from customers and members	6,654,876	$162	$100,825	6,755,863	$38,000
Payments to contractors and members	(27,089,101)	(5,343)	(90,320)	(27,184,764)	(45,503)
Payments to employees	(10,949,719)			(10,949,719)	
Payments to committees	(85,200)			(85,200)	
Other receipts (payments)	226,593			226,593	
Net cash flows from operating activities	(677,438)	(5,181)	10,505	(672,114)	(7,503)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(21,122)			(21,122)	
Repayment of long-term obligations	(73,231)			(73,231)	
Interest paid	(70,352)	(10)		(70,362)	
Net cash flows from capital and related financing activities	(164,705)	(10)		(164,715)	
CASH FLOWS FROM INVESTING AND RELATED FINANCING ACTIVITIES					
Interest received	13,384	24	1,073	14,481	3
Net cash flows	(828,759)	(5,167)	11,578	(822,348)	(7,500)
Cash and cash equivalents at beginning of year	8,128,348	32,620	326,513	8,487,481	9,601
Cash and cash equivalents at end of year	$7,299,589	$27,453	$338,091	$7,665,133	$2,101
Reconciliation of operating income to net cash provided by operating activities:					
Net Program Loss	($1,771,600)	($3,980)	($88,441)	($1,864,021)	($45,503)
Adjustments to reconcile net program loss to cash flows from operating activities:					
Depreciation	166,035			166,035	
Membership dues	1,896,480			1,896,480	
Donations - unrestricted	95,815		62,495	158,310	38,000
Interest	70,352	10		70,362	
Change in assets and liabilities:					
Receivables	(21,277,296)		21,551	(21,255,745)	
Prepaid expenses and other assets	(201,700)		(5,000)	(206,700)	
Accounts payable	20,343,767	(1,211)	19,900	20,362,456	
Compensated absences	(19,196)			(19,196)	
Other accrued liabilities	135,639			135,639	
Unearned revenue	142,232			142,232	
Net OPEB obligation	(112,266)			(112,266)	
Decrease (increase) in due to retirement system	(145,700)			(145,700)	
Net cash flows from operating activities	($677,438)	($5,181)	$10,505	($672,114)	($7,503)

See accompanying notes to basic financial statements

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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 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, 375 Beale Street, Suite 700, San Francisco, CA 94105, to the attention of Association of Bay Area Governments.

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 $1,493,651 for these services and $781,631 for contract services in the fiscal year ended June 30, 2016.

- ABAG Finance Authority for Non-profit Corporations (FAN) assists non-profit corporations and local governments 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 $655,043 for these services and $396,357 for contract services in the fiscal year ended June 30, 2016.

- 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 $94,590 for these services and $27,555 for contract services in the fiscal year ended June 30, 2016.

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 $335,381 for these services and $9,800 for contract services in the fiscal year ended June 30, 2016.

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 purposes 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 3.9% 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, 2015	$549,863
Additions	511,163
Payments	(530,359)
Balance June 30, 2016	$530,667
Due within one year	$357,523

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. 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.

H. Fair Value Measurements

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

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

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

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

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

NOTE 2 - CASH AND INVESTMENTS

Cash and investments comprised the following at June 30, 2016:

	Association and other blended component units	SF Bay Restoration Authority	Total
Local Agency Investment Fund	$2,441,583		$2,441,583
Cash:			
Cash in banks	5,223,230	$2,101	5,225,331
Cash on hand	320		320
Total Cash and Investments	$7,665,133	$2,101	$7,667,234

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.

A. *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%	None
Commercial Paper	180 days	A1/P1	10%	None
Investment Agreements	On Demand	N/A	None	None
Repurchase Agreements	15 days	N/A	10%	None
Certificates of Deposit	3 years	N/A	10%	10%
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	None	None
Investment Trust of California (CalTRUST)	On Demand	N/A	None	None

B. *Fair Value Hierarchy*

The Association categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Association's only investment in the California Local Agency Investment Fund (LAIF) is classified as Level 2 of the fair value hierarchy, and is valued based on the fair value factor provided by the Treasurer of the State of California, which is calculated as the fair value divided by the amortized cost of the investment pool.

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	$2,441,583
Cash in banks	5,225,331
Cash on hand	320
Total Cash and Investments	$7,667,234

As of year-end, the weighted average maturity of the investments in the LAIF investment pool is approximately 167 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 acquisition 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

NOTE 3 – CAPITAL ASSETS (Continued)

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

	June 30, 2015	Additions	June 30, 2016
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	1,079,155	$21,122	1,100,277
Vehicles	57,652		57,652
Capitalized software	697,974		697,974
Total capital assets being depreciated	5,438,928	21,122	5,460,050
Less accumulated depreciation for:			
Facilities and improvements	(3,477,001)	(45,932)	(3,522,933)
Furniture and equipment	(805,612)	(117,680)	(923,292)
Vehicles	(57,652)		(57,652)
Capitalized software	(691,309)	(2,423)	(693,732)
Total accumulated depreciation	(5,031,574)	(166,035)	(5,197,609)
Total depreciable assets	407,354	(144,913)	262,441
Total	$1,207,354	($144,913)	$1,062,441

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, 2015	Retirements	Balance June 30, 2016	Current Portion
BUSINESS-TYPE ACTIVITY				
Office Improvement Project				
Variable rate + 1%, due 1/1/2020	$366,978	($73,231)	$293,747	$77,747

NOTE 4 - LONG TERM OBLIGATION (Continued)

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 2016. On July 26, 2016, the letter of credit was extended to mature on June 30, 2017.

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, whereby, 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 rate at the average annual Local Agency Investment Fund's (LAIF) rate plus one percent (1.576% as of June 30, 2016). As of June 30, 2016, based on the year-end interest rate, the installment agreement obligations were as follows:

For the Year Ending June 30	Principal	Interest	Total
2017	$77,747	$4,629	$82,376
2018	82,543	3,404	85,947
2019	87,634	2,103	89,737
2020	45,823	722	46,545
Total	$293,747	$10,858	$304,605

NOTE 5 - WINDEMERE RANCH ASSESSMENT DISTRICT SPECIAL ASSESSMENT DEBT

On behalf of Contra Costa County, in 1997 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 Finance 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 ABAG Finance Authority for Nonprofit Corporation'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	
	2016	2015
Revenue Bonds	$116,880,000	$136,325,000
Certificates of Participation	6,970,000	8,950,000
Total	$123,850,000	$145,275,000

NOTE 7 – NET POSITION

A. Entity-Wide Financial Statements - 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, 2016, 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.

B. Net Position Deficit

The Association has a deficit net position of $7,859,475 primarily due to the Association's implementation of the Governmental Accounting Standards Board Statement 68 – Accounting and Financial Reporting for Pensions.

NOTE 8 – PENSION PLAN

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 Plan and additions to/deductions from the Plan's 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 Plan*

Plan Description – All qualified permanent and probationary employees are eligible to participate in the Association's Miscellaneous Employee Pension Rate Plan. The Association's Miscellaneous Rate Plan are part of the public agency cost-sharing multiple-employer, which is administered by the California Public Employees' Retirement System (CalPERS). The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. Benefit provisions under the Plan are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plan 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.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Tier I	Tier II
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	50 - 67+	52 - 67+
Monthly benefits, as a % of eligible compensation	2.0%-2.5%	1.0%-2.5%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	9.067%	6.237%

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The Association's required contribution for the unfunded liability and side fund was $491,374 in fiscal year 2016.

NOTE 8 – PENSION PLAN (Continued)

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 the Plan 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, 2016, the contributions to the Plan were as follows:

	Miscellaneous Tier I & II
Contributions - employer	$491,374
Contributions - employee (jointly paid by employer and employee)	436,643

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

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 positon of the Plan and additions to/deductions from the Plan's 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.

As of June 30, 2016, the Association reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Tier I & II	$12,998,297
Total Net Pension Liability	$12,998,297

NOTE 8 – PENSION PLAN (Continued)

The Association's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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 plan relative to the projected contributions of all participating employers, actuarially determined. The Association's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	Miscellaneous Tier I & II
Proportion - June 30, 2014	0.4744%
Proportion - June 30, 2015	0.4738%
Change - Increase (Decrease)	-0.0006%

For the year ended June 30, 2016, the Association recognized pension expense of $345,674. At June 30, 2016, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Tier I & Tier II	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	$491,374	
Differences between actual and expected experience	83,655	
Changes in assumptions		($791,456)
Net differences in actual contributions and proportionate contributions	216,775	
Net differences between projected and actual earnings on pension plan investments		(396,767)
Adjustments due to differences in proportion	1,286,443	
Total	$2,078,247	($1,188,223)

NOTE 8 – PENSION PLAN (Continued)

Deferred outflows of $491,374 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:

Miscellaneous Tier 1 & Tier 2	
Year Ended June 30	Annual Amortization
2017	($38,965)
2018	(26,796)
2019	(42,752)
2020	507,163
Thereafter	

Actuarial Assumptions – For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

	Miscellaneous
	Tier I and Tier II
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Depending on age, service and type of employment
Investment Rate of Return	7.5% (1)
Retirement Age	Based on CalPERS 2010 Experience Study for period 1997 to 2007
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 AA. For more details on this table, please refer to the CalPERS 2010 experience study report available on CalPERS' website.

NOTE 8 – PENSION PLAN (Continued)

All other actuarial assumptions used in the June 30, 2014 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.

Change of Assumptions – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 measurement date.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the 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 7.65 discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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.

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.

In December 2016, CalPERS' Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers' normal costs and unfunded actuarial liabilities.

NOTE 8 – PENSION PLAN (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	51%	5.25%	5.71%
Private Equity	19%	0.99%	2.43%
Global Fixed Income	6%	0.45%	3.36%
Liquidity	10%	6.83%	6.95%
Real Assets	10%	4.50%	5.13%
Inflation Sensitive Assets	2%	4.50%	5.09%
Absolute Return Strategy (ARS)	2%	-0.55%	-1.05%
Total	100%		

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 the Plan, calculated using the discount rate for the 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 & II
1% Decrease	6.65%
Net Pension Liability	$18,751,013
Current Discount Rate	7.65%
Net Pension Liability	$12,998,297
1% Increase	8.65%
Net Pension Liability	$8,248,761

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 January 1, 2015 plan amendment. Pre-amendment benefit does not include Medicare B Reimbursement.

As of June 30, 2016, approximately 64 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 – 7.8% 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 21 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, 2016, the Association contributed $786,756 which represented 11.89% of the $6,616,000 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, 2015	$401,777
Annual required contribution (ARC)	761,000
Interest on net OPEB obligation	33,000
Implied subsidy	(42,000)
Adjustment to annual required contribution	(77,510)
Annual OPEB cost	674,490
Contributions made:	
Contributions to CERBT	401,777
Association's portion of current year premiums paid	384,979
Total contributions	786,756
Change in net OPEB Liability	(112,266)
Net OPEB Obligation June 30, 2016	$289,511

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
6/30/2014	$826,995	$893,739	108%	$599,976
6/30/2015	695,675	893,874	128%	401,777
6/30/2016	674,490	786,756	117%	289,511

NOTE 10 - 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, 2016 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. Staff Consolidation

On May 25, 2016, the governing bodies of ABAG and MTC voted to support a full functional staff consolidation and the pursuit of new governance options. This resolution retains the independence and statutory responsibilities of both boards and calls for new governance options to be considered by ABAG and MTC over the longer term. In the near term, both ABAG and MTC are developing a Contract for Services to officially consolidate the two staffs under the MTC executive director and to continue funding ABAG's projects and activities. Under the Contract of Services the organization and the financial structure of ABAG will not significantly change and ABAG will continue to exist as a separate entity.

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Required Supplemental Information

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Association of Bay Area Governments, a Cost-Sharing Defined Pension Plan
As of fiscal year ending June 30, 2016
Last 10 Years*

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Measurement Date	Miscellaneous Tier I & II 6/30/2015	Miscellaneous Tier I & II 6/30/2014
Plan's Proportion of the Net Pension Liability/Asset	0.4738%	0.4744%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$12,998,297	$11,357,673
Plan's Covered-Employee Payroll	$6,038,648	$7,230,571
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	215.25%	157.08%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	0.2144%	0.2256%

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

Association of Bay Area Governments, a Cost-Sharing Defined Pension Plan
As of fiscal year ending June 30, 2016
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

	Miscellaneous Tier I & II Fiscal Year 2015-2016	Miscellaneous Tier I & II Fiscal Year 2014-2015
Actuarially determined contribution	$491,374	$1,305,738
Contributions in relation to the actuarially determined contributions	(491,374)	(1,305,738)
Contribution deficiency (excess)	$0	$0
Covered-employee payroll	$6,038,648	$7,230,571
Contributions as a percentage of covered-employee payroll	8.14%	18.06%

Notes to Schedule

Valuation date:	6/30/2014	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	Varies by Entry Age and Service	
Investment rate of return	7.65%, net of pension plan investment and administrative expenses, including inflation	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 2010 CalPERS Experience Study. The table includes 20 years of mortality improvements using the Society of Actuaries Scale AA.	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.

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

Association of Bay Area Governments, Other Post Employment Benefits
As of fiscal year ending June 30, 2016
Last 3 Valuations

SCHEDULE OF FUNDING CONTRIBUTIONS

Valuation Date	Actuarial 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%	$6,616,000	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%

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

FOR THE YEAR ENDED JUNE 30, 2016

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

For The Year Ended June 30, 2016

Table of Contents

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MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

To the Executive Board of the
Association of Bay Area Governments
San Francisco, 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, 2016, 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 is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
February 10, 2017

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FS2016-01 Upcoming Governmental Accounting Standards Board Pronouncements

The following pronouncements are effective in fiscal year 2016/17:

GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported

2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions

3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

GASB 74 - *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures.

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

GASB 77 - *Tax Abatement Disclosures*

This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period

GASB 78 - ***Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans***

The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

SCHEDULE OF OTHER MATTERS

GASB 80 - ***Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14***

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement enhance the comparability of financial statements among governments. Greater comparability improves the decision-usefulness of information reported in financial statements and enhances its value for assessing government accountability.

GASB 82 - ***Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73***

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Presentation of Payroll-Related Measures in Required Supplementary Information

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

Selection of Assumptions

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

Classification of Employer-Paid Member Contributions

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The following pronouncements are effective in fiscal year 2017/18:

GASB 75 - ***Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to 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 defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 81 - *Irrevocable Split-Interest Agreements*

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

How the Changes in This Statement Improve Financial Reporting

This Statement enhances the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission.

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REQUIRED COMMUNICATIONS

February 10, 2017

To the Executive Board of the
Association of Bay Area Governments
San Francisco, California

We have audited the basic financial statements of the Association of Bay Area Governments for the year ended June 30, 2016. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and, Government Auditing Standards and Uniform Guidance.

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 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. 72 – *Fair Value Measurement and Application*

The intention of this Statement is to enhance the 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. It also enhances fair value application guidance and related disclosures.

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

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 non-authoritative 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.

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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.

The pronouncement became effective, but did not have a material effect on the financial statements

GASB 79 – ***Certain External Investment Pools and Pool Participants***

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The pronouncement became effective, but did not have a material 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, 2016, the Association held approximately $7.7 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, 2016. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2016.
>
> *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.
>
> *Estimate of Compensated Absences:* Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hoaurs and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 1E to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences 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 $16.5 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 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 February 10, 2017.

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 auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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.

We were not engaged to report on the Introductory Section included as part of the Basic Financial Statements, but are not required supplementary information. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on them.

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This information is intended solely for the use of Board of Directors 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
February 10, 2017

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ASSOCIATION OF BAY AREA GOVERNMENTS

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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ASSOCIATION OF BAY AREA GOVERNMENTS

SINGLE AUDIT REPORT
For The Year Ended June 30, 2016

TABLE OF CONTENTS

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ASSOCIATION OF BAY AREA GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2016

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP:	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 2 CFR 200.516(a)?		Yes	X	No

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
20.205	Highway Planning and Construction Grant
66.439	Targeted Watershed Grants

Dollar threshold used to distinguish between type A and type B programs: $750,000

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 February 10, 2017 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 Uniform Guidance.

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

There were no prior year Federal Award Findings and Questioned Costs reported

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Pass-Through To Subrecipients	Federal Expenditures
Department of Interior, US Geological Survey **Direct** Programs:				
Earthquake Hazards Reduction Program				
Bay Area Housing Risk Communication Tools Update	15.807			$55,470
Program Subtotal				55,470
U.S. Geological Survey - Research and Data Collection				
Local Government Resilience Toolkit	15.808			8,892
Program Subtotal				8,892
Subtotal Department of Interior, US Geological Survey **Direct Programs**				64,362
Department of Interior, US Geological Survey **Pass - Through** Programs:				
California Department of Parks & Recreation				
Clean Vessel Act Program	15.616	C8957407		156,649
Subtotal Department of Interior, US Geological Survey **Pass - Through** Programs				156,649
Total Department of Interior, US Geological Survey Programs				221,011
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		2,630,575
Total Department of Transportation **Pass - Through** Programs				2,630,575
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		$70,608	181,608
Targeted Watershed Grants				
EPA Green Infill /Clean SW	66.439			165,542
National Estuary Program				
EPA FY 13-14 Estuary	66.456			522,778
Congressionally Mandated Projects				
Estuary 2100 Phase II	66.202		365,038	449,469
The San Francisco Bay Water Quality Improvement Fund				
San Pablo Ave. Green SW Spine	66.126			3,506
Flood 2.0 - Rebuilding Habitat & Shoreline Resilience	66.126		243,121	290,196
Greener Pesticides for Cleaner Waterways	66.126			10,258
EPA Mercury CPR	66.126			27,692
Urban Greener Bay Area	66.126		157,779	220,085
Suisun Marsh Water Quality Monitoring Project	66.126			61,769
Program Subtotal			400,900	613,506
Subtotal U.S. Environmental Protection Agency **Direct** Programs			836,546	1,932,903

(Continued)

ASSOCIATION OF BAY AREA GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Pass-Through To Subrecipients	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	14-818-550		307,556
Pass - Through the Aquatic Science Center				
Regional Wetland Program Development Grant				
Aquatic Science Center Contract II	66.461	CD-99T34301-0		22,427
Subtotal U.S. Environmental Protection Agency **Pass - Through** Programs				329,983
Total U.S. Environmental Protection Agency Programs				2,262,886
Department of Homeland Security **Direct** Programs				
Cooperating Technical Partners				
Regional Resilience Plan	97.045			77,234
FY 2015 Community Engagement and Risk Communication	97.045			671,863
Total Department of Homeland Security **Direct** Programs				749,097
Total Expenditures of Federal Awards			$836,546	$5,863,569

See Accompanying Notes to Schedule of Expenditures of Federal Awards

ASSOCIATION OF BAY AREA GOVERNMENTS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2016

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 as disclosed in the notes to the Basic Financial Statements.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 – INDIRECT COST ELECTION

The Association has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Members of the Executive Board of the
Association of Bay Area Governments, 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, 2016, and the related notes to the financial statements, and have issued our report thereon dated February 10, 2017. 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. 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.

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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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Association's Response to Findings

We have also issued a separate Memorandum on Internal Control dated February 10, 2017 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
February 10, 2017

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 THE UNIFORM GUIDANCE

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' (Association) compliance with the types of compliance requirements described in the *OMB 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, 2016. 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 the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

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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 20, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the basic financial statements of the business-type activities of the Association as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements. We issued our report thereon dated February 10, 2017 which contained unmodified opinions 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 the Uniform Guidance 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
February 10, 2017

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To: Finance and Personnel Committee

Fr: Sheelagh Flanagan, Senior Advisor to ABAG FAN
Michael Hurtado, ABAG Financial Services Manager and ABAG FAN Secretary

Dt: March 13, 2017

Re: Description of Functions of a Conduit Issuer and Report on Internal Controls

Summary: The Financial Services staff would like to provide an overview of the conduit issuer process and an overview of internal controls that have been implemented for the ABAG Finance Authority for Nonprofit Corporations (FAN) and will be implemented for the proposed new ABAG Finance Authority (Authority).

A. What is a Conduit Issuer?

A conduit issuer is a joint powers agency formed among at least two governmental entities for the purpose of facilitating the process of accessing lower interest rate, municipal tax-exempt capital markets for governmental entities and non-profit and for-profit private entities with projects that serve a public purpose. The conduit issuer facilitates the process by issuing tax exempt bonds which are repaid solely with funds from such governmental and private entities. The conduit issuer has absolutely no obligation to repay the bonds from any of its funds or assets.

B. Private Placement Process

One form of issuing conduit debt is through a private placement. A borrower with a project that provides public benefit, approaches the Authority seeking lower interest rate, tax-exempt municipal financing. The borrower has already assembled a team for the financing which includes a financial advisor and bond counsel, who will assemble the legal documents on the financing and give the opinion on the tax-exempt status of the bonds and a lender who has committed to making the loan. Through the conduit process described above, the lender's loan becomes a tax exempt revenue bond. The lending bank then purchases the bonds – in effect buying back its loan. Therefore, these bonds are often unrated and not credit enhanced because the lending bank has already made its decision on the creditworthiness of the borrower and the project in approving the loan.

C. Public Offering Process

Another form of issuing conduit bonds is through a public offering. A borrower with a project that provides public benefit, approaches the conduit issuer seeking lower interest rate, tax-exempt municipal financing. The borrower has already assembled a team for the financing which includes a financial advisor, underwriter and bond counsel. In the public offering process, the financing is either reviewed by one or more rating agencies or obtains credit enhancement through bond insurance or other financial backups/guarantee. In each case, the result is a market rate bond that is sold through a public offering. The bonds are tax exempt due to the conduit issuer's status as public entity.

D. Due Diligence

FAN has issued bonds using both types of sales and Authority will also. Currently, FAN requires borrowers seeking to use its services to fill out a detailed application supplied by FAN. Once completed, FAN reviews the application including the project, the financial documentation provided by the borrower's financial advisor, and the legal documentation provided by bond counsel. FAN assesses the project based on its public benefit, confirms that the financial documentation reflects the borrower's ability to repay the debt, and the legal documents clearly and conclusively provide that FAN has no obligations to repay the bonds on behalf of the borrower, even in the event of default. In addition, the legal documents also provide that FAN receives a full defense and indemnity by the borrower against any third party claims arising out of the loan, the bonds or the project. We will be proposing similar due diligence procedures for the Authority.

E. Fees and Post Issuance Responsibilities

For its part as serving as the issuer on the financing, conduit issuers collect an issuance fee as well as an annual fee. The issuance fee covers staff costs to review the application and perform all of its issuance duties. The annual fee serves to fund the operating costs of the conduit issuer in servicing the bonds on an ongoing basis.

F. Internal Accounting Controls and Procedures

Upon discovering the defalcation from the prior FAN Secretary, ABAG and FAN engaged the law firm of Orrick Herrington & Sutcliffe (OHS) and forensic accounting consultant FTI Consultant to perform a full forensic analysis of the defalcation and to provide a report of the defalcation and recommendations for internal controls. FAN has implemented all of the recommendations except for hiring a Director for FAN.[1] (See attachments). We have a series of memos and reports given to the FAN Executive Committee regarding these matters. We plan on imposing the same controls on any transactions by the Authority.

The purpose of this memorandum and the accompanying slides are informational and for the Committee's review. Staff will answer further questions and concerns from the Committee.

Cc: Kenneth Moy, ABAG Legal Counsel and ABAG FAN Acting General Counsel
Brad Paul, Acting President for ABAG Finance Authority

[1] Due to the staff consolidation with MTC and the reconfiguration of the financial services program to include a contracted senior advisor, the position has been revised to be a manager for FAN and the new JPA.

FAN Memorandum

Date: June 22, 2016

To: FAN Executive Board

Prepared by: Charlie Adams, Former ABAG Interim Director of Finance/FAN CFO
From: Courtney Ruby, ABAG Director of Finance/FAN CFO

Re: **ABAG's Response to FAN's prior embezzlement**

The discovery and disclosure of embezzlements of nearly $4 million by the FAN Financial Services Director, Clarke Howatt, sparked a series of action by the:

- FAN Board of Directors
- ABAG Board of Directors
- California State Senate Committee on Governance & Finance
- California State Controller
- Metropolitan Transportation Commission (MTC)

The primary questions for all of the entities with actual or potential oversite responsibility for ABAG's administration of public funds were:

- Discovery of any embezzlements not initially disclosed by Howatt.
- Identification of the entities from which funds had been embezzled.
- Identification of any persons who may have colluded with Howatt in the embezzlements.
- Discovery of any FAN/ABAG weaknesses in internal accounting and administrative controls that contributed to the perpetration of the embezzlements, and that might allow for future defalcations or misuse of public funds.
- Evaluation of immediate and planned remedial actions by ABAG to reduce the potential for future embezzlement.

Consistent findings from the inquiries and examinations of the five authorities listed above include:

- No information was discovered that indicated that additional defalcations may have occurred.
- No information was discovered that indicated the involvement of any person other than Howatt in the embezzlements.
- The funds embezzled were from two Community Facilities Districts. There were no funds embezzled from:
    - any organizations for which FAN served as conduit bond issuer,
    - any corporate accounts of FAN or ABAG, or
    - any grant funding administered by ABAG.
- A system of internal accounting controls for FAN operations had been prescribed that would either prevent the embezzlements or caused their discovery sooner than occurred, but deficiencies in supervision of the Finance Services Director, Clark Howatt, and failure to maintain accounting records for assessment districts, outside of FAN administrative offices, allowed the internal accounting controls to be circumvented.

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Immediate Remedial Actions taken by ABAG

Upon discovery of the embezzlement by ABAG management, the following actions were taken:

- Acceptance of the resignation of Clarke Howatt, termination of his access to all FAN and ABAG bank and investment accounts and internal accounting records.
- Re-designation of officials authorized to approve transfer of assessment district funds and disbursement of funds to parties not specified in original bond issuance documents.
- Created a matrix for the approval of invoices processed by FAN and increased required signatures to three for transactions in excess of $100,000.
- Recruited an Interim Finance Services Director, with knowledge of FAN structure and operations.
- Recruited an Interim ABAG Finance Director, with experience in audit of public agencies and issuance of municipal bonds.
- Engaged Orrick and FTI to perform a forensic examination of FAN transactions for the most recent five years.
- Established a seven step procedure for submission of disbursement requests to bond trustees.
- Established a five step procedure for reconciliation of district accounts at bond trustees.

Response to Initial Findings and Recommendations

- Responded to the report of the State Controller and successfully addressed all findings.
- Cooperated in the Special Procedures Engagement performed by MTC' s independent auditors, PriceWaterhouseCoopers.
- Accepted the findings and recommendation of Management Resources Group (MRG) for strengthening the internal accounting and administrative controls for administration of the Community Facilities Districts and Assessment Districts.
- With MRG, completed a Handbook/Desk Manual for Community Facilities Districts, Assessment Districts and other bond programs.
- Developed a FAN operating budget which recognized the distinction between CFDs and Assessment Districts, and conduit financing activities.
- Strengthened the oversight of FAN by ABAG management through increased involvement of ABAG Legal Counsel and ABAG Finance Director, including the transfer of all accounting responsibilities to the ABAG Finance Department.
- Resolved the issue of past due accounts receivables on the FAN books. These receivables had been used to mask the embezzlement of CFD funds.
- Consolidated depository account and trustee accounts in one bank. The separation of these accounts resulted in unnecessary transfers that complicate the tracking and reporting of tax revenues of CFD's and Assessment Districts.

Procedural Enhancements in Progress

- Closing of superfluous depository accounts that make reconciliation of accounts time consuming and cumbersome.
- Implementation of accounting procedures to provide general ledger control of transactions in trustee accounts of districts administered by FAN.
- Institution of formal periodic financial reporting of FAN activities to the FAN Executive Committee by the ABAG Finance Director.

- Recruitment of an Assistant Finance Services Director, with experience in bond issuance, continuing disclosure, and subsequent transaction such as refinancing.

DATE: September 13, 2016

TO: FAN Executive Committee

FROM: Courtney Ruby, CFO

SUBJECT: Update on Enhancement of Internal Accounting and Administrative Controls

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In the previous report to the FAN Executive Committee, we described:

- ✓ embezzlement of funds by the FAN Financial Services Director
- ✓ deficiencies in FAN internal accounting and administrative controls (IAAC) that were disclosed in investigations of the embezzlement
- ✓ immediate remedial action taken by ABAG
- ✓ ABAG's response to the findings from several entities that examined the embezzlement; and
- ✓ procedural enhancement to FAN IAACs that were in the process of implementation

This report is an update on the enhancements in progress at the time of the report.

Procedural Enhancements in Progress

- **Closing of superfluous depository accounts that make reconciliation of accounts time consuming and cumbersome.**

  All accounts at both Bank of New York Mellon and MFUG Union Bank have been reconciled as of June 30, 2016 and accounts that are dormant have been identified and segregated from the active accounts, so as to permit efficient posting and reconciliation of monthly bank statements. Two depository accounts at BNY have been closed and the assessments revenues are being deposited directly with the Trustee bank, Union Bank. Several dormant accounts at Union Bank have been closed, and we continue to review the bond indentures to verify that additional accounts may be closed, without violation of the indentures.

- **Implementation of accounting procedures to provide general ledger control of transactions in trustee accounts of districts administered by FAN.**

  Ledgers for the chronological posting of all cash transactions for each of the districts have been established in excel spreadsheets. These ledgers have been posted through the June 30, 2016 fiscal year and will be posted monthly by the ABAG Finance Department going forward.

- **Institution of formal periodic financial reporting of FAN activities to the FAN Executive Committee by the ABAG Finance Director.**

  Because the reporting for financing districts is unlike reporting for governmental entities, not-for-profit entities, commercial entities or even financial entities, we are not able provide meaningful financial status and results of operation for the districts in statements of financial position and statements of revenues and expenditures.

  Therefore, we have drafted unique financial reports that we believe are easily understood, and that provide the information that will allow the FAN Directors to monitor activities of the districts, spot irregularities and to question results that vary from the expected results. The first presentation of these reports will be made at the next meeting of the Executive Committee, and will be presented by the ABAG Finance Director on a regularly scheduled basis.

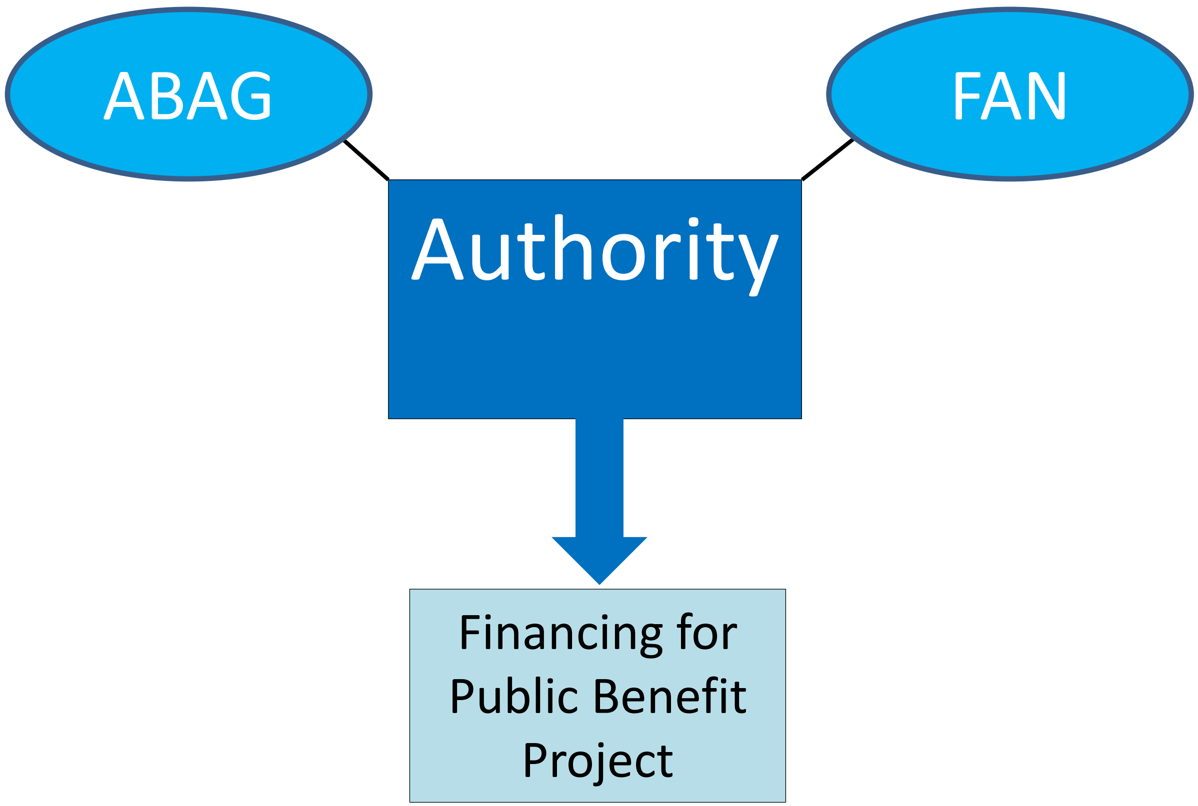
- **Recruitment of an Assistant Finance Services Director, with experience in bond issuance, continuing disclosure, and subsequent transaction such as refinancing.**

  You have been introduced to Michael Hurtado, Interim Financial Services Director, and I am pleased to report that he has been a valuable resource in our efforts to strengthen FAN's administrative procedures and controls.

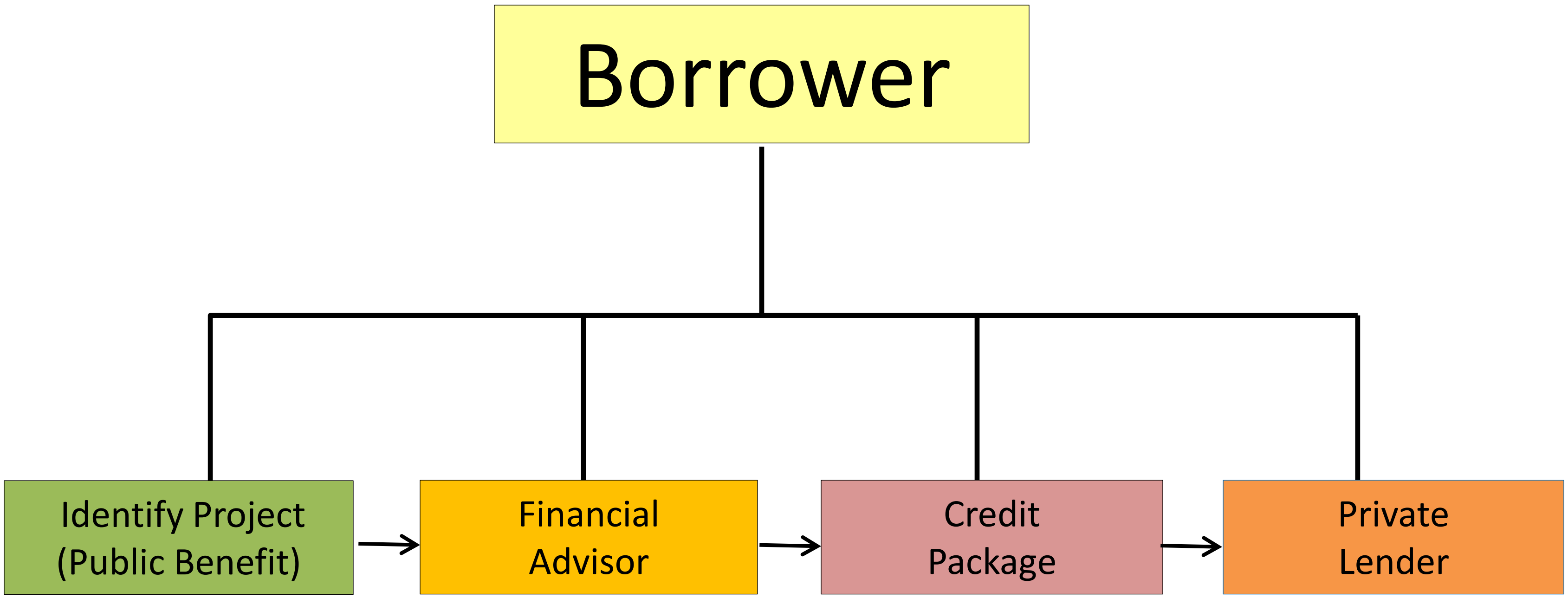
The ABAG Finance Authority
A Conduit Issuer

FINANCE AUTHORITY
Association of Bay Area Governments

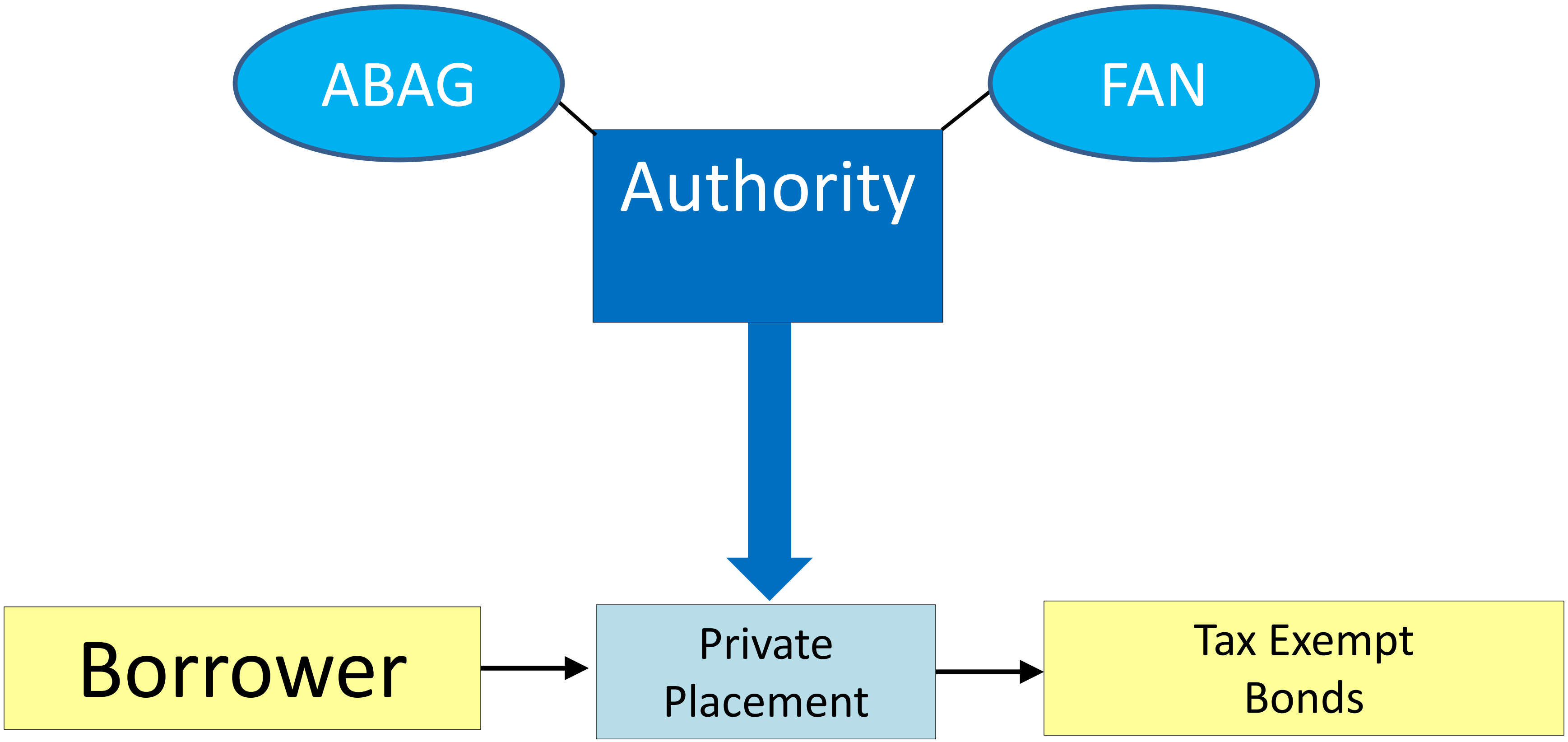
What is a Conduit Issuer?



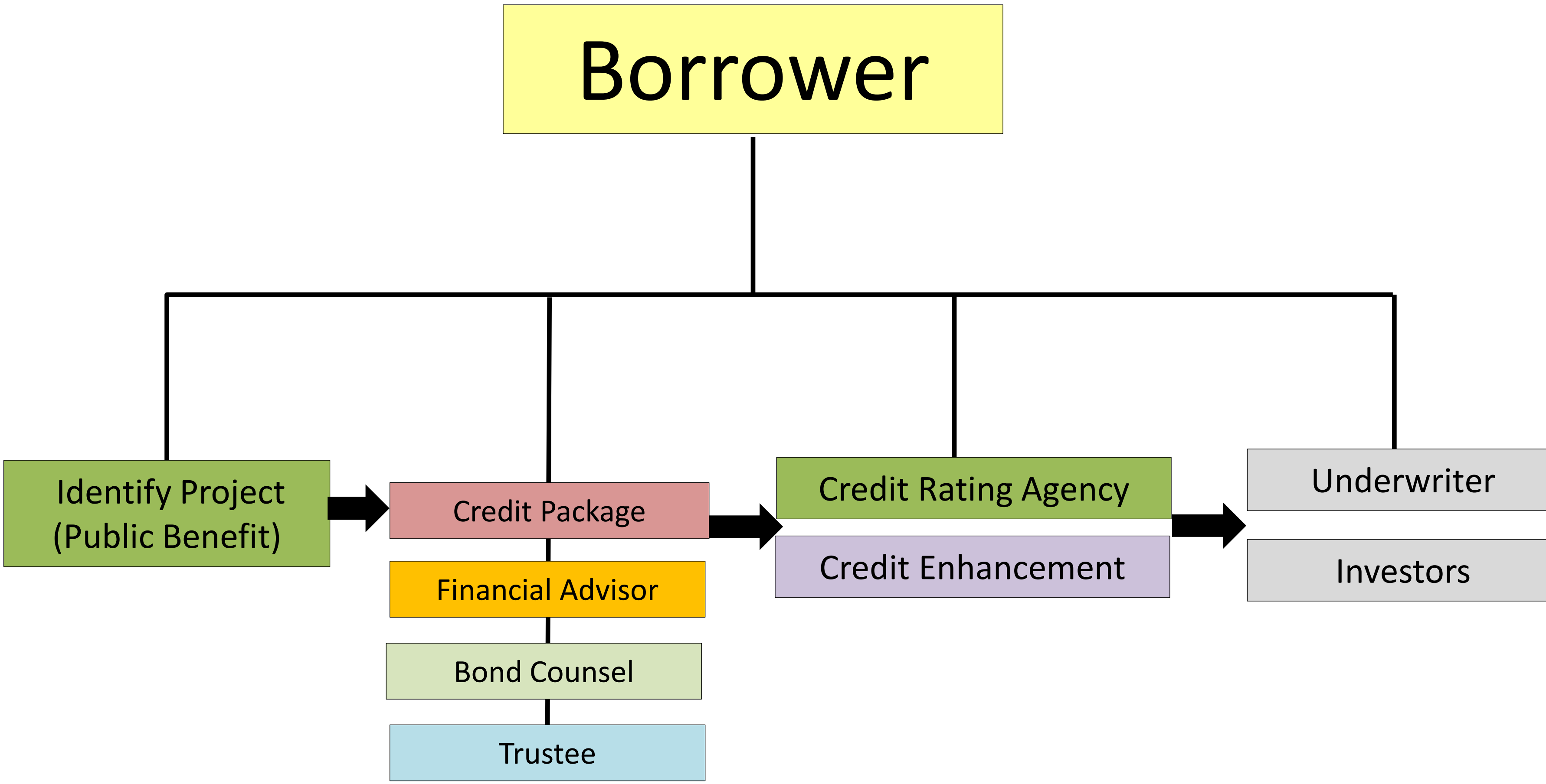
Private Placement



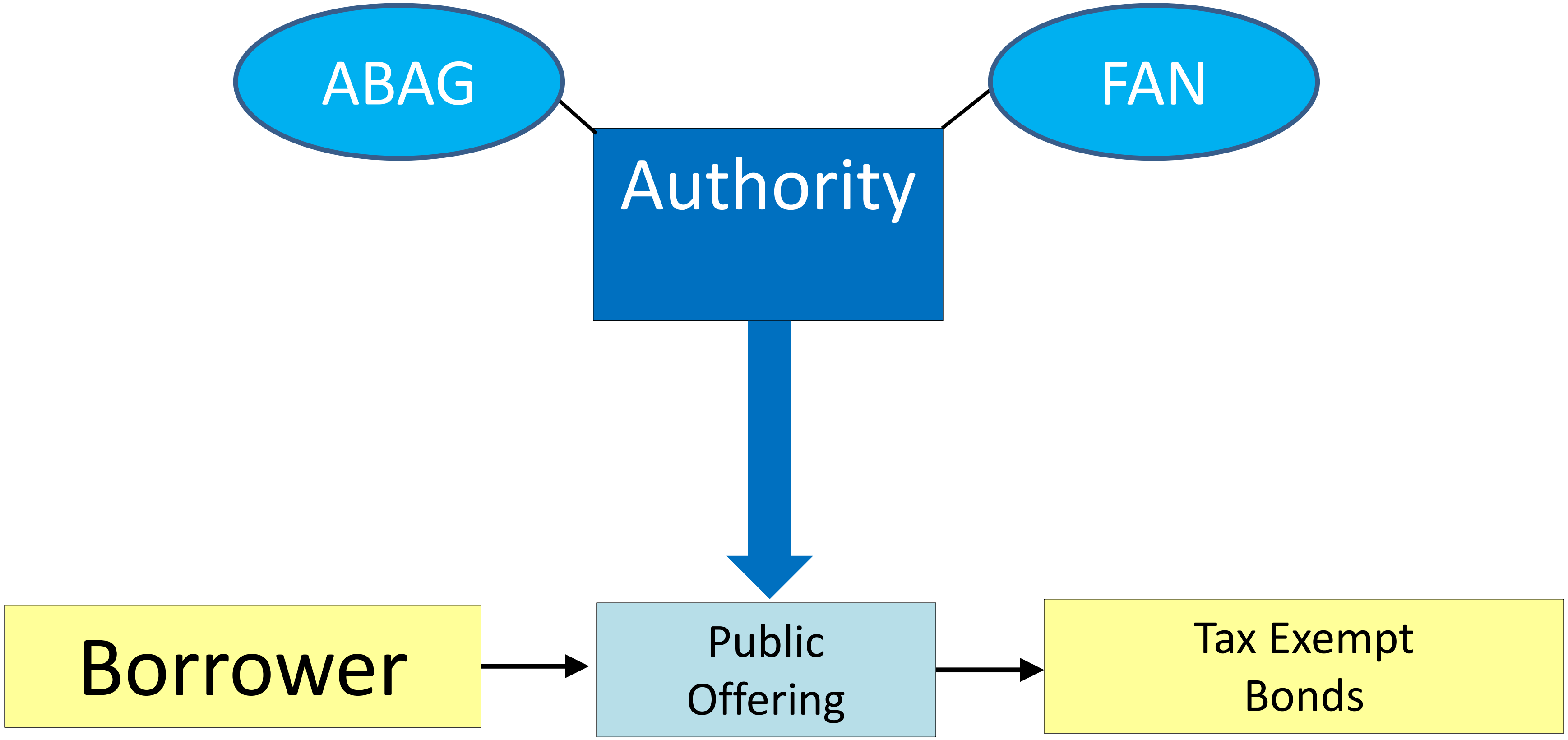
Private Placement



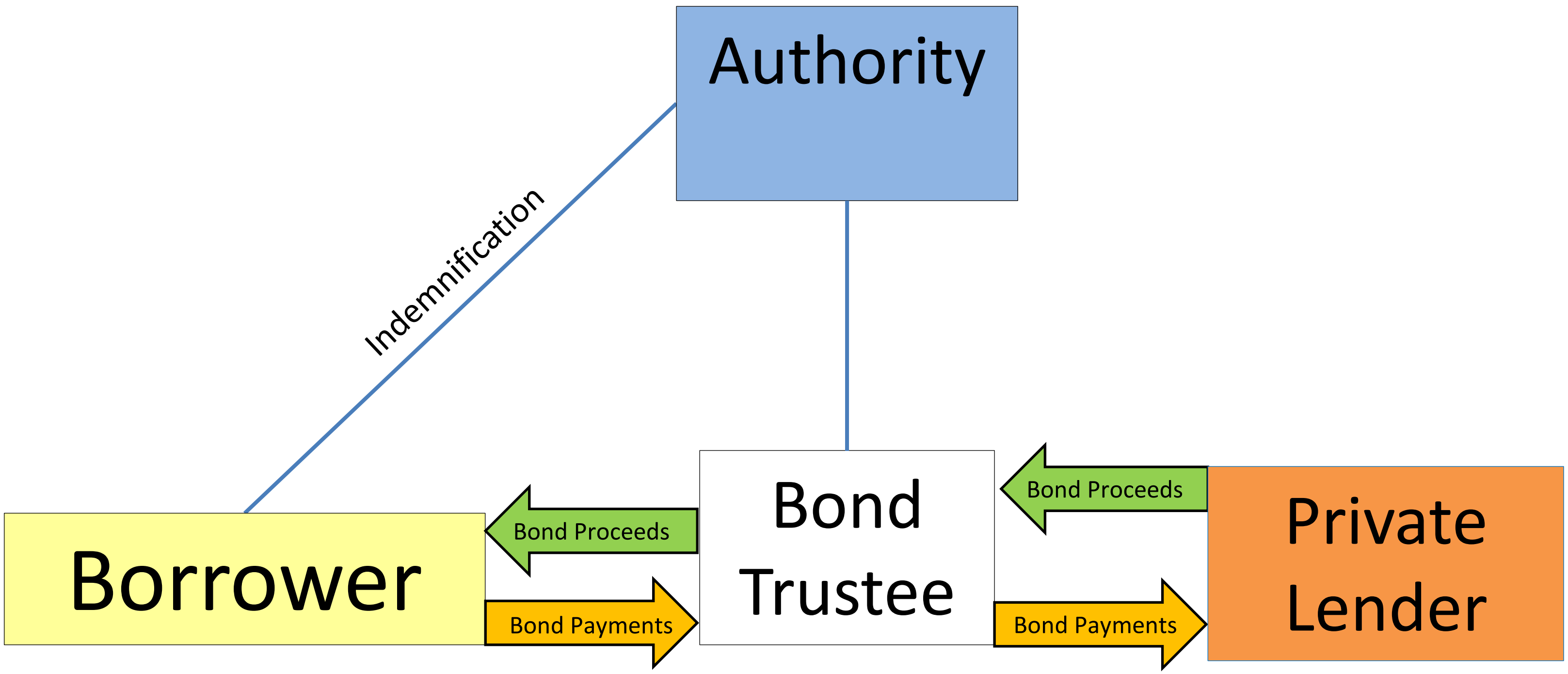
Public Offering



Public Offering

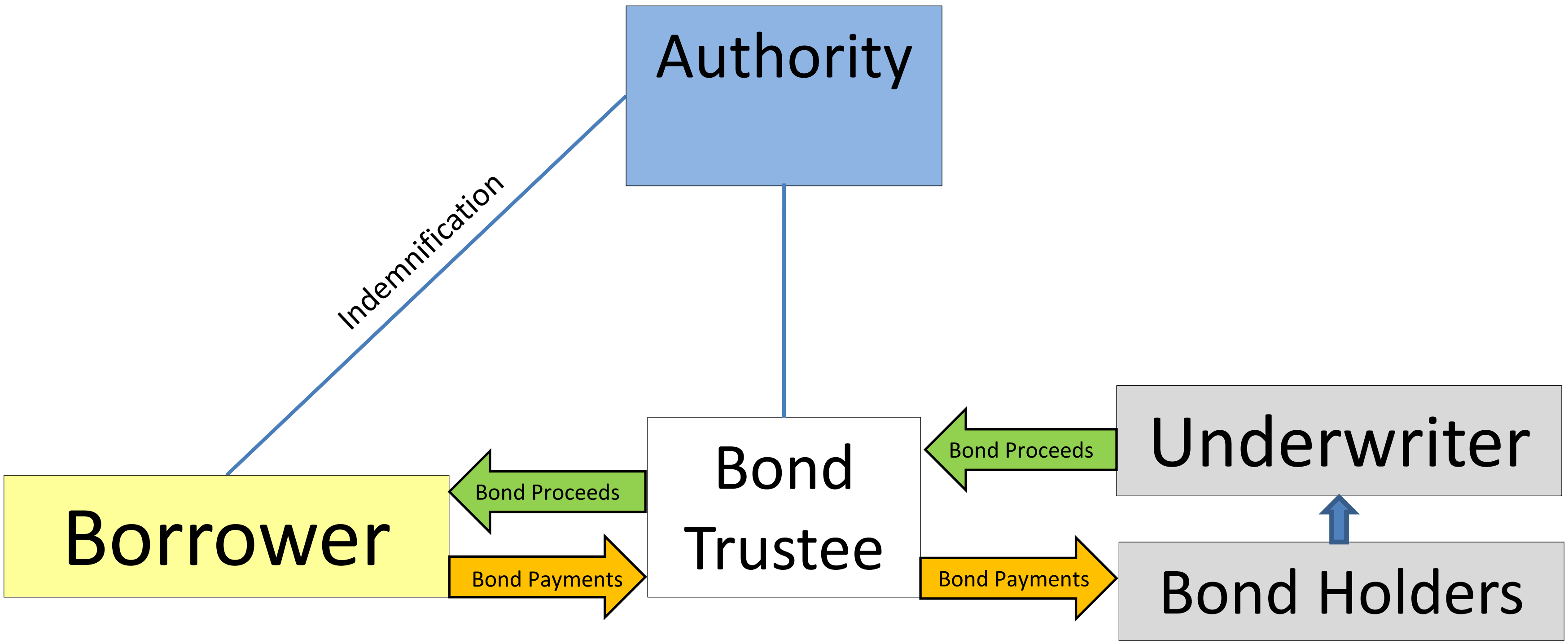


Private Placement Format



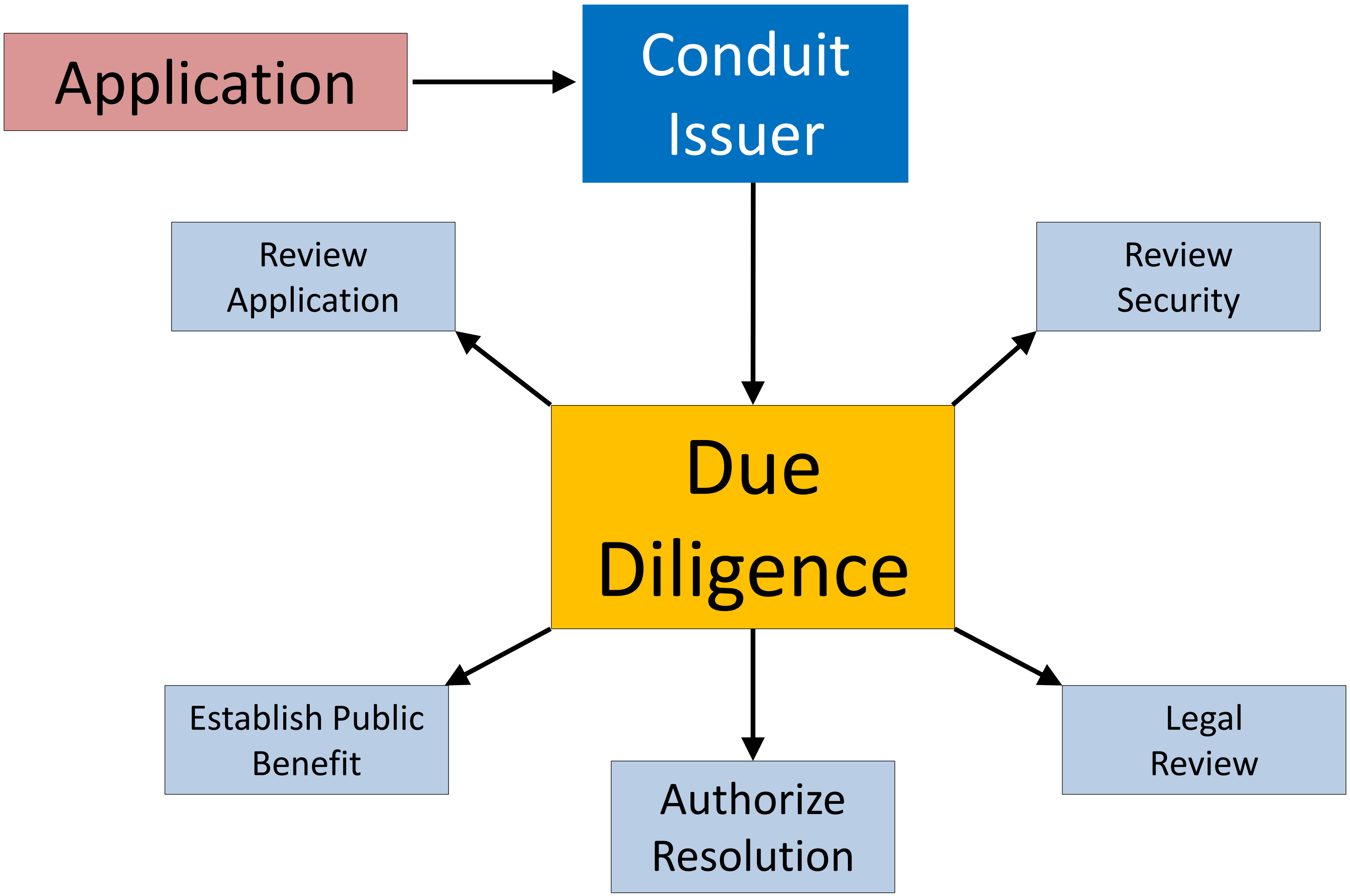
Bond funds never flow through or are handled by the Finance Authority

Public Offering Format

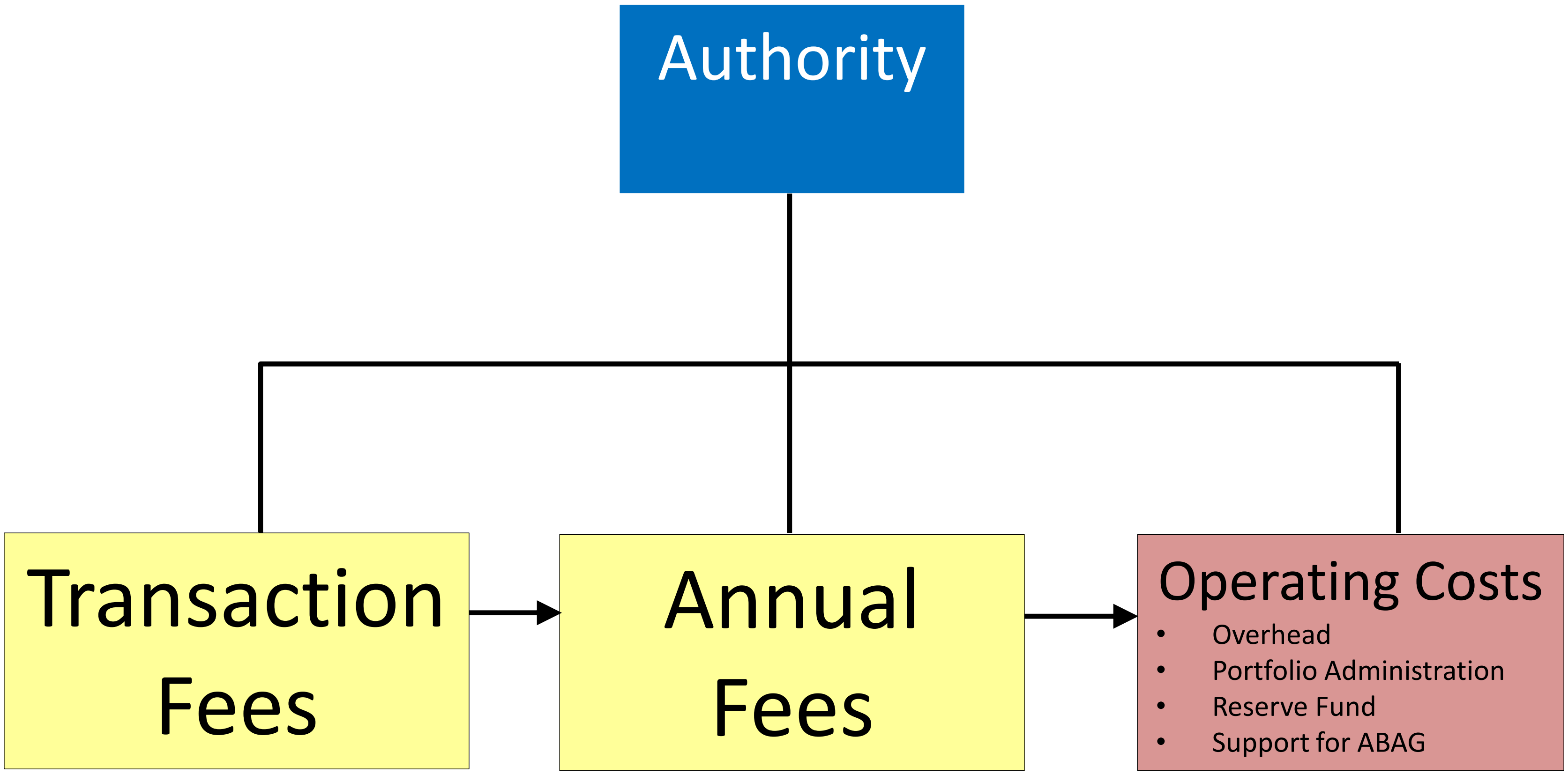


Bond funds never flow through or are handled by the Finance Authority

Conduit Issuer Process



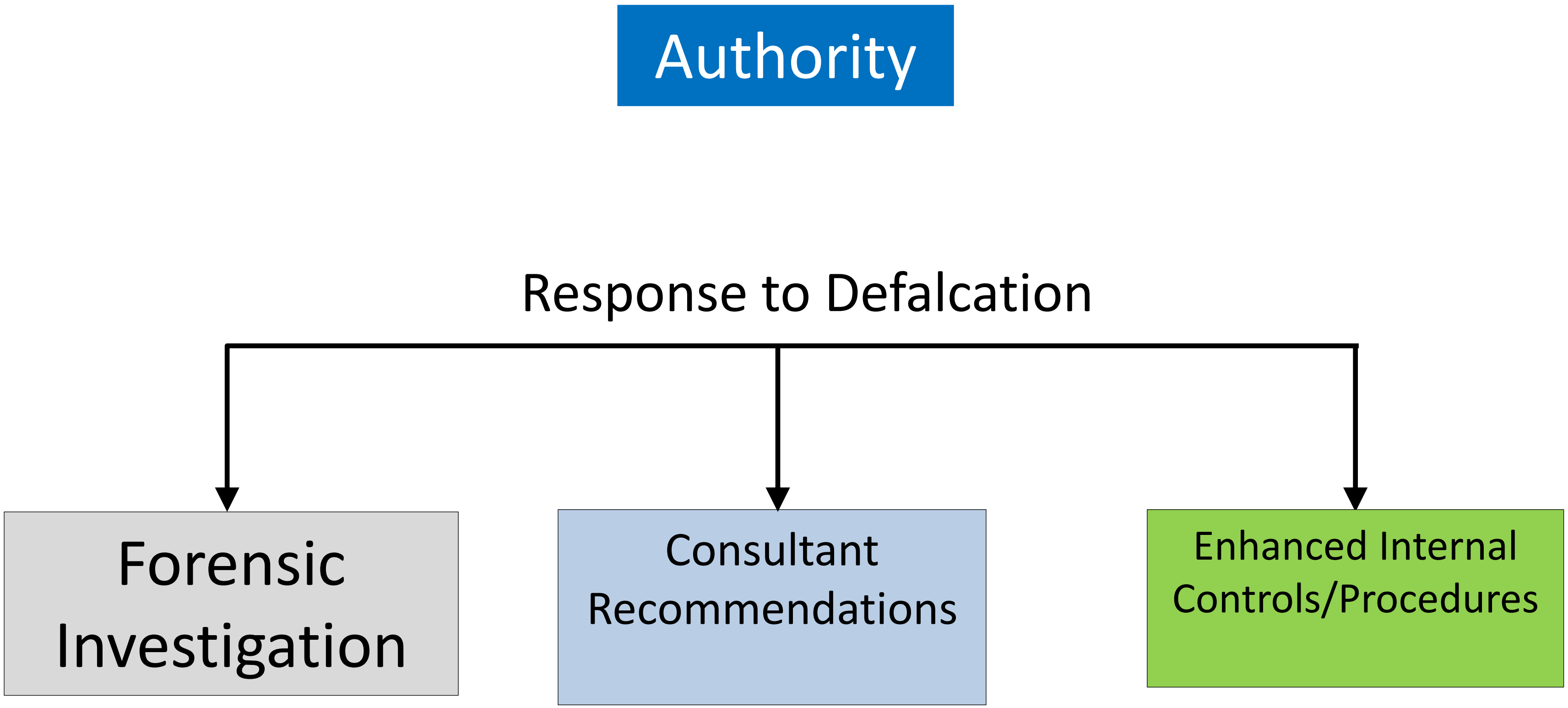
Conduit Process Post Issuance



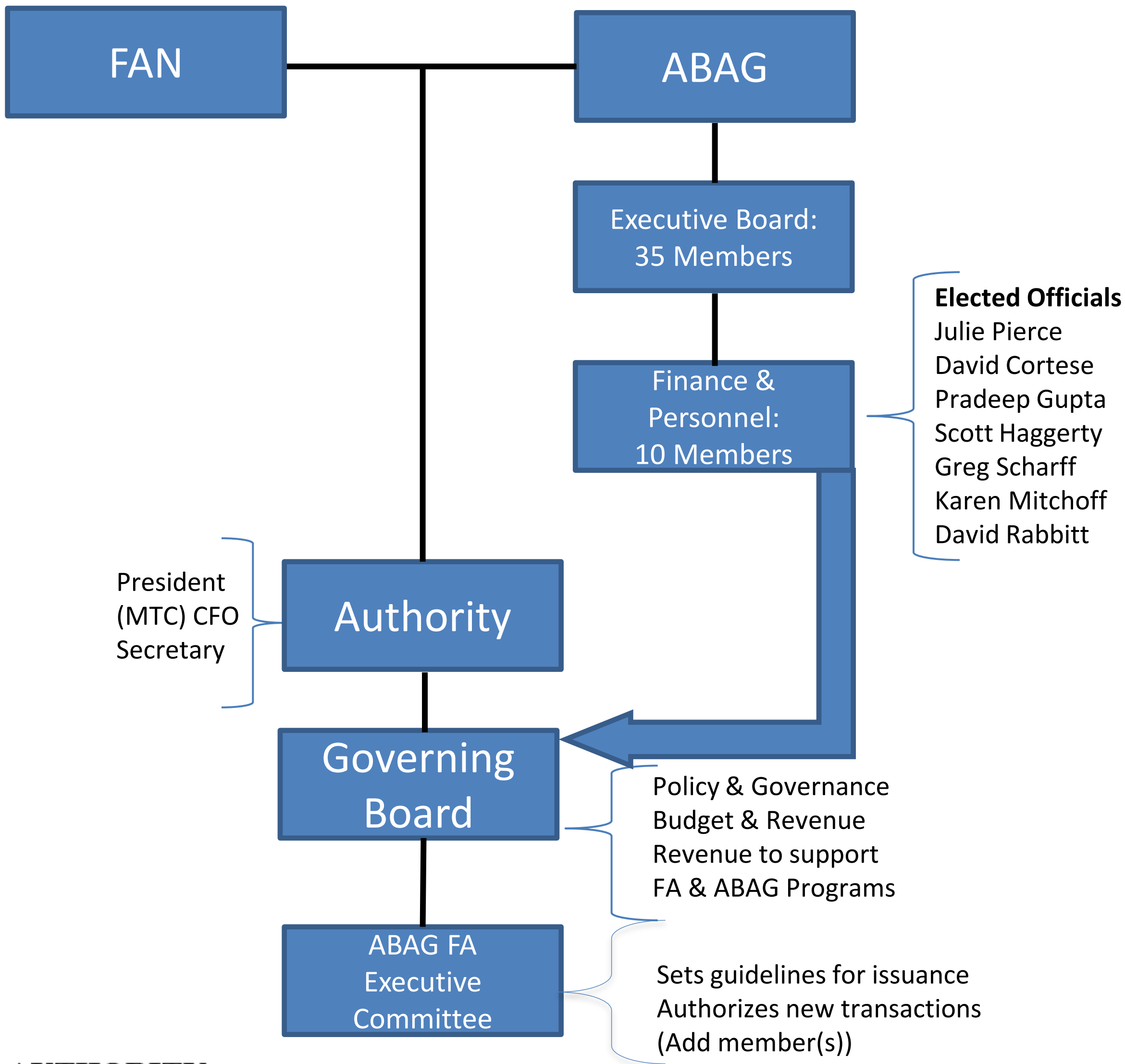
Pro Forma Revenues

Authority	Principal	Upfront Fees (0.15%)	Annual Fees (0.02%)	Total Fees	CSCDA Revenues	CMFA Revenues
Year 1	$200,000,000	$300,000	0	$300,000	$16,000,000 (Annual Fees of $10,900,000)	$4,500,000 (Annual Fees of $2,500,000)
Year 2	$225,000,000	$337,500	$40,000	$377,500		
Year 3	$250,000,000	$375,000	$85,000	$460,000		
Year 4	$275,000,000	$412,500	$135,000	$547,500		
Total	$950,000,000	$1,425,000	$260,000	$1,685,000		

New Internal Accounting Controls and Procedures



New Finance Authority JPA



Finance and Personnel Committee

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Julie Pierce, Councilmember, City of Clayton—*Ex officio*
David Rabbitt, Supervisor, County of Sonoma—*Ex officio*

2/17/17