Agenda Item 4

# Bay Area Headquarters Authority

**Financial Statements**
**As of and for the Years Ended June 30, 2016 and 2015**

# Bay Area Headquarters Authority
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## As of and for the Years Ended June 30, 2016 and 2015

## Report of Independent Auditors

To the Governing Body of the Bay Area Headquarters Authority:

We have audited the accompanying statements of net position and the related statements of revenues, expenses and changes in net position and cash flows of the Bay Area Headquarters Authority (BAHA), a discretely presented component unit of the Metropolitan Transportation Commission as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise BAHA's basic financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to BAHA'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 BAHA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of BAHA at June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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***Emphasis of Matter***

As discussed in Note 2 to the financial statements, BAHA changed the manner in which it presents certain fair value hierarchy disclosures related to investments in the year ended June 30, 2016. Our opinion is not modified with respect to this matter.

***Other Matter***

The accompanying management's discussion and analysis ("MD&A") on pages 3 through 6 are required by accounting principles generally accepted in the United States of America 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 audits 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.

San Francisco, California
October [ ], 2016

## Management's Discussion and Analysis

This financial report is designed to provide a general overview of the Bay Area Headquarters Authority's (BAHA) proprietary fund, a discretely presented component unit of the Metropolitan Transportation Commission (MTC). This Management's Discussion and Analysis presents an overview of the financial activities of BAHA for the years ended June 30, 2016 and 2015. The discussion has been prepared by management and should be read in conjunction with the financial statements and the notes which follow.

MTC and the Bay Area Toll Authority (BATA) executed a Joint Exercise of Power Agreement on September 28, 2011 to establish BAHA. BAHA is authorized to take all actions necessary to plan, acquire, develop, operate, and maintain BAHA's office space and facilities. However, BAHA may not issue bonds or other forms of indebtedness. On October 14, 2011, BAHA acquired the property located on 375 Beale Street, San Francisco, California (the "Building") for the purpose of establishing a Bay Area regional headquarters for MTC, Bay Area Air Quality Management District (BAAQMD), and the Association of Bay Area Governments (ABAG). The Building is named Bay Area Metro Center (BAMC).

There are six members on the governing board of BAHA. BAHA's board consists of four MTC Commissioners and two BATA Commissioners: the MTC Commission chair and vice chair, BATA Oversight Committee's chair and vice chair as well as the MTC Administration Committee's chair and vice chair. Neither MTC nor BATA is responsible for any liabilities or obligations of BAHA.

### A. Financial Highlights

1) The renovation of BAMC was substantially completed in April 2016.
2) The Fastrak® Customer Service Center relocated to BAMC and opened its operations at the end of April, 2016.
3) In May 2016, MTC along with its partner agencies, BAAQMD and ABAG, moved into BAMC.
4) BAHA has leased out 97 percent of the commercial and retail space in BAMC.
5) BAHA's second tenant, Rutherford + Chekene (R+C), moved into BAMC in June, 2016.

### B. Overview of the BAHA Financial Statements

BAHA's basic financial statements include *Statements of Net Position*, *Statements of Revenues, Expenses and Changes in Net Position*, and *Statements of Cash Flows*. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

*Statements of Net Position* report assets, liabilities and the difference as net position. *Statements of Revenues, Expenses, and Changes in Net Position* consist of operating revenues and expenses and nonoperating revenues and expenses. *Statements of Cash Flows* are presented using the direct method.

*Statements of Net Position*, *Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows* are presented on pages 7 – 9 of this report.

## C. Financial Analysis

*Statements of Net Position*

The following table is a summary of BAHA's statement of net position as of June 30 for the last three fiscal years:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Cash and investments | $ 57,725,768 | $ 107,211,885 | $ 119,459,990 |
| Receivables | 541,858 | 367,584 | 122,600 |
| Other assets | 722,088 | 626,621 | 118,515 |
| Due from other fund | - | - | 400,000 |
| Capital assets | 249,254,479 | 185,688,498 | 131,881,565 |
| Total assets | 308,244,193 | 293,894,588 | 251,982,670 |
| Other liabilities | 35,569,175 | 14,211,990 | 8,759,928 |
| Long term liabilities | 160,452 | 56,822 | 400,000 |
| Total liabilities | 35,729,627 | 14,268,812 | 9,159,928 |
| Net position | | | |
| Net investment in capital assets | 249,254,479 | 185,688,498 | 131,881,565 |
| Restricted for capital projects | 23,260,087 | 93,937,278 | 110,941,177 |
| Total net position | $ 272,514,566 | $ 279,625,776 | $ 242,822,742 |

Cash and investments decreased by $49,486,117 and $12,248,105 in fiscal years 2016 and 2015 respectively. The decrease in fiscal year 2016 is mainly due to payments for the final phase of the BAMC renovation and purchase of furniture and equipment. The decrease in fiscal year 2015 is a result of expenditures for construction, equipment installation, and network configuration.

The receivables increased by $174,274 and $244,984 in fiscal years 2016 and 2015, respectively. The $541,858 fees receivable from occupants of BAMC at June 30, 2016 consists of a $153,781 security deposit and $388,077 fee charges to occupants for shared services in BAMC. The $367,584 receivable at June 30, 2015 is for shared services on enterprise technology integration at BAMC.

Other assets increased by $95,467 and $508,106 in fiscal years 2016 and 2015, respectively. The increase in fiscal year 2016 is due to $21,258 in accrued interest and $74,209 in prepaid expenses mostly for insurance. The increase in fiscal year 2015 is a result of purchases of equipment warranties and software licenses.

Capital assets increased by $63,565,981 and $53,806,933 in fiscal years 2016 and 2015, respectively. The increase in fiscal year 2016 is a result of increases in renovation expenditures and the purchase of furniture and equipment. The increase in fiscal year 2015 is due to increases in construction, new equipment installation, and network configuration costs for BAMC.

Other liabilities increased by $21,357,185 and $5,452,062 in fiscal years 2016 and 2015 respectively. The increase in fiscal year 2016 is a result of increases of $26 million in accrued liabilities and $2 million in retention liabilities for construction work for BAMC, and $602,306 in unearned revenue from tenants' prepaid rent, offset by a decrease of $7 million in accounts payable. The increase in fiscal year 2015 is mainly due to $4.6 million increase in accounts payable and accrued liabilities of construction work for BAMC, $53,075 of prepaid rent, and $800,000 deposit payable.

Long term liabilities increased by $103,630 in fiscal year 2016 and decreased by $343,178 in fiscal year 2015. The increase in fiscal year 2016 is due to increases in security deposits paid by tenants of BAMC. The decrease in fiscal year 2015 is a result of the reclassification of a $400,000 deposit payable from non-current to current liability because the moving date was within one year from June 30, 2015 offset by a security deposit of $56,822.

*Statements of Revenues, Expenses, and Changes in Net Position*

The following table is a summary of BAHA's statement of revenues, expenses, and changes in net position for the last three fiscal years ended June 30:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Operating revenue | | | |
| Rental income | $ 218,334 | $ 1,103,834 | $ 1,477,082 |
| Total operating revenue | 218,334 | 1,103,834 | 1,477,082 |
| Operating expenses | | | |
| Property management | 317,636 | 101,494 | 104,462 |
| Other expenses | 8,588,179 | 3,932,243 | 3,445,060 |
| Total operating expenses | 8,905,815 | 4,033,737 | 3,549,522 |
| Nonoperating revenues | | | |
| Interest and miscellaneous income | 650,334 | 810,351 | 108,814 |
| Total nonoperating revenues | 650,334 | 810,351 | 108,814 |
| Capital contributions | 925,937 | 38,922,586 | 30,000,000 |
| Increase (Decrease) in net assets | (7,111,210) | 36,803,034 | 28,036,374 |
| Net position - beginning | 279,625,776 | 242,822,742 | 214,786,368 |
| Net position - ending | $ 272,514,566 | $ 279,625,776 | $ 242,822,742 |

BAHA's operating revenues decreased by $885,500 and $373,248 in fiscal years 2016 and 2015, respectively. The decrease in fiscal year 2016 is a result of only two months of rent collected from BAMC's new tenants. The decrease in fiscal year 2015 is due to receiving nine months of rent from the tenant, instead of a whole year, as a result of the lease termination.

Total operating expenses increased by $4,872,078 and $484,215 in fiscal years 2016 and 2015, respectively. The $4.9 million increase in fiscal year 2016 mainly is a result of operating costs for the three agencies occupying BAMC since May 2016. The increase is due to $1.4 million in commissions for lease transactions, $216,142 in property management services, $582,066 in salaries and benefits,

$484,284 in repair and maintenance, $140,096 in cleaning services, $324,319 in utilities, $487,020 in computer maintenance and services, $308,129 in supplies and equipment rental, $403,465 in depreciation, $229,814 in overhead, and $270,527 in other operating expenses. The increase in fiscal year 2015 mostly is due to $439,854 in professional fees for the network and relocation consulting services.

BAHA's nonoperating revenues decreased by $160,017 in fiscal year 2016 and increased by $701,537 in fiscal year 2015. The decrease in fiscal year 2016 is due to decreases in billings to BAAQMD and ABAG for the shared services at BAMC. The increase in fiscal year 2015 reflects the reimbursement of shared services by BAAQMD and ABAG for the cost of the enterprise technology integration at BAMC and insurance proceeds paid to BAHA.

BAHA received $925,937 capital contribution from BATA for staff costs for the renovation of BAMC in fiscal year 2016. BAHA's $39 million capital contributions in fiscal year 2015 are mainly from BATA's transfer of certain savings from the defeasance of the State Payment Acceleration Notes (SPANs).

## D. Notes to the Financial Statements

The notes to the financial statements, beginning on page 10, provide additional information that is essential to a full understanding of the data provided in this management discussion and analysis and the financial statements.

## E. Economic Factors

The Bay Area economy continues to recover. The region's unemployment rate remains low, and sales taxes have increased from the prior years. General factors include:

- The unemployment rate in the Bay Area has been maintained at 4.2 percent as of June in both 2016 and 2015 based on the data from State of California, Employment Development Department.
- Sales tax revenues increased for the sixth straight fiscal year by 3.5 percent and 5.4 percent in fiscal years 2016 and 2015, respectively.
- Building construction and permitting activity has increased as has the demand for consumer goods according to an industrial consultant's report.

## Requests for information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer and Auditor, Bay Area Headquarters Authority, 375 Beale Street, Suite 800, San Francisco, CA 94105.

# Bay Area Headquarters Authority
## Statements of Net Position
## June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash - restricted | $ 27,725,768 | $ 19,723,668 |
| Short term investments - restricted | - | 57,488,217 |
| Accounts receivable | 541,858 | 367,584 |
| Accrued interest | 32,127 | 10,869 |
| Prepaid expenses | 689,961 | 615,752 |
| Total current assets | 28,989,714 | 78,206,090 |
| Non-current assets: | | |
| Long term investments - restricted | 30,000,000 | 30,000,000 |
| Capital assets, not being depreciated | 34,045,614 | 185,688,498 |
| Capital assets, net of accumulated depreciation | 215,208,865 | - |
| Total non-current assets | 279,254,479 | 215,688,498 |
| **TOTAL ASSETS** | 308,244,193 | 293,894,588 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | 2,442,579 | 9,503,624 |
| Retention payable | 5,730,780 | 3,760,437 |
| Accrued liabilities | 25,887,784 | 94,854 |
| Unearned revenue | 655,381 | 53,075 |
| Tenants' security deposits | 52,651 | - |
| Deposit payable | 800,000 | 800,000 |
| Total current liabilities | 35,569,175 | 14,211,990 |
| Non-current liabilities: | | |
| Tenants' security deposits | 160,452 | 56,822 |
| Total non-current liabilities | 160,452 | 56,822 |
| **TOTAL LIABILITIES** | 35,729,627 | 14,268,812 |
| **NET POSITION** | | |
| Net investment in capital assets | 249,254,479 | 185,688,498 |
| Restricted for capital projects | 23,260,087 | 93,937,278 |
| **TOTAL NET POSITION** | $ 272,514,566 | $ 279,625,776 |

# Bay Area Headquarters Authority
## Statements of Revenues, Expenses and Changes in Net Position
## For the Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **OPERATING REVENUE** | | |
| Rental income | $ 218,334 | $ 1,103,834 |
| **TOTAL OPERATING REVENUE** | 218,334 | 1,103,834 |
| **OPERATING EXPENSES** | | |
| Salaries and benefits | 1,623,998 | 1,041,932 |
| Professional fees | 2,510,015 | 1,102,756 |
| Repairs and maintenance | 902,729 | 418,445 |
| Property management service | 317,636 | 101,494 |
| Insurance | 212,402 | 245,034 |
| Security | 141,181 | 164,082 |
| Cleaning service | 197,950 | 57,854 |
| Communication charges | 90,780 | 16,290 |
| Utilities | 626,142 | 301,823 |
| Computer maintenance and services | 487,020 | - |
| Supplies and equipment rental | 308,129 | - |
| Depreciation | 462,598 | 59,133 |
| Overhead | 676,396 | 446,582 |
| Other | 348,839 | 78,312 |
| **TOTAL OPERATING EXPENSES** | 8,905,815 | 4,033,737 |
| **OPERATING LOSS** | (8,687,481) | (2,929,903) |
| **NONOPERATING REVENUES** | | |
| Interest income | 131,640 | 131,029 |
| Other nonoperating revenues | 517,710 | 679,322 |
| Miscellaneous income | 984 | - |
| **TOTAL NONOPERATING REVENUES** | 650,334 | 810,351 |
| **LOSS BEFORE CAPITAL CONTRIBUTION** | (8,037,147) | (2,119,552) |
| Capital contribution from BATA/MTC/SAFE | 925,937 | 38,922,586 |
| **CHANGE IN NET POSITION** | (7,111,210) | 36,803,034 |
| **Net position - Beginning of year** | 279,625,776 | 242,822,742 |
| **Net position - Ending of year** | $ 272,514,566 | $ 279,625,776 |

# Bay Area Headquarters Authority
## Statements of Cash Flows
## For the Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash receipts from tenants and others | $ 1,321,342 | $ 2,448,070 |
| Cash payments to suppliers | (7,417,637) | (4,180,110) |
| **Net cash used in operating activities** | (6,096,295) | (1,732,040) |
| **Cash flows from capital and related financing activities** | | |
| Contributions from BATA/MTC/SAFE | 925,937 | 38,922,586 |
| Acquisition of capital assets | (44,426,141) | (49,575,665) |
| **Net cash used in capital and related financing activities** | (43,500,204) | (10,653,079) |
| **Cash flows from investing activities** | | |
| Proceeds from maturities of investments | 189,447,806 | 228,938,491 |
| Purchase of investments | (131,959,589) | (210,046,981) |
| Interest received | 110,382 | 137,014 |
| **Net cash provided by investing activities** | 57,598,599 | 19,028,524 |
| **Net increase in cash** | 8,002,100 | 6,643,405 |
| **Balances - Beginning of year** | 19,723,668 | 13,080,263 |
| **Balances - End of year** | $ 27,725,768 | $ 19,723,668 |

**Reconciliation of operating income to net cash used in operating activities**

| | 2016 | 2015 |
|---|---|---|
| Operating loss | $ (8,687,481) | $ (2,929,903) |
| Adjustments to reconcile operating loss to net cash provided by/(used in) operating activities: | | |
| Depreciation | 462,598 | 59,133 |
| Other revenues | 498,201 | 679,322 |
| Net effect of changes in: | | |
| Accounts receivable | - | (244,984) |
| Prepaid expenses | (74,209) | (514,091) |
| Due from MTC | - | 400,000 |
| Accounts payable | 852,872 | 418,679 |
| Accrued liabilities | 246,918 | (110,093) |
| Unearned revenue | 602,306 | 53,075 |
| Tenants' security deposits | 2,500 | 56,822 |
| Deposit payable | - | 400,000 |
| **Net cash used in operating activities** | $ (6,096,295) | $ (1,732,040) |

**Significant Noncash Investing, Capital, and Financing Activities**

| | | |
|---|---|---|
| Building improvements included in accounts payable and accrued liabilities | $ 32,319,857 | $ 12,717,418 |

## 1. Reporting Entity and Operations

The Bay Area Headquarters Authority (BAHA) was established on September 28, 2011 pursuant to the California Joint Exercise of Powers Act, consisting of Sections 6500 through 6599.2 of the California Government Code to provide for the joint exercise powers common to Metropolitan Transportation Commission (MTC) and the Bay Area Toll Authority (BATA) where two or more public agencies may enter into an agreement to establish an agency to exercise any power common to the contracting parties. BAHA is authorized to plan, acquire and develop BAHA's office space and facilities; to employ agents and employees; to acquire, construct, provide for maintenance and operation of, or maintain and operate, any buildings, works or improvements; to acquire, hold or dispose of property wherever located, including the lease or rental of property; to receive gifts, contributions and donations of property, funds, services and other forms of assistance from persons, firms, corporation and any governmental entity. There are six members on the governing board of BAHA. BAHA's board consists of four MTC Commissioners and two BATA Commissioners: the MTC Commission chair and vice chair, BATA Oversight Committee's chair and vice chair as well as the MTC Administration Committee's chair and vice chair.

MTC was established under Government Code Section 66500 et seq. of the laws of the State of California (the State) in 1970 to provide comprehensive regional transportation planning for the nine counties that comprise the San Francisco Bay Area, which includes the City and County of San Francisco and the Counties of Alameda; Contra Costa, Marin, Napa, San Mateo, Santa Clara, Solano and Sonoma.

BATA was established pursuant to Chapter 4.3 of Division 17 of the California Streets and Highways Code Section 30950 et seq with the power under California Streets and Highways Code section 30951 to apply for, accept, receive, and disburse grants, loans, and other assistance from any agency of the United States or of the State and to plan projects within its jurisdiction under California Streets and Highways Code Section 30950.3. BATA is a blended component unit of MTC because the two governing boards have the same Commissioners.

BAHA is a discretely presented component unit of MTC because it does not qualify for blending under the provisions of GASB Statement No. 61, *The Financial Reporting Entity.* As such, it is presented as a proprietary fund in the component unit column of the government-wide financial statements of MTC. Neither MTC nor BATA have any obligations for BAHA's liabilities or other obligations.

These standalone financial statements are for the benefit of the users of BAHA's financial statements who need more disclosure of information and to see the financial information segregated for this entity.

### BAHA's Operations

On October 14, 2011, BAHA acquired the office facility at 375 Beale Street, San Francisco, California, now named Bay Area Metro Center (BAMC). BATA's board authorized contributions of $167,026,515 and $48,423,485 to BAHA to acquire the property in October 2011 and April 2013, respectively. The October 2011 acquisition cost of BAMC was $92,168,317. The difference between BATA's contribution and the cost of BAMC was to be used towards renovating BAMC. In October 2013, BATA's board authorized a contribution of $30 million to BAHA to purchase a Certificate of

Participation (COP) issued by the Bay Area Air Quality Management District (BAAQMD). In December 2014, BATA's board authorized an additional contribution of $33 million to BAHA to cover the construction costs incurred from the delayed relocation of the last remaining tenant, as well as to pay for additional agency and tenant space improvements. In addition, BAHA also received contributions of $250,000 from MTC, $50,000 from MTC Service Authority for Freeway & Expressways (SAFE), and $5,622,586 from BATA in fiscal year 2015 for the move coordination and staff costs to prepare BAMC for occupancy. In fiscal year 2016, BATA contributed $925,937 to BAHA for staff costs for the capital project.

BAHA is responsible for the management and operation of BAMC, including sales (of condominium interests in BAMC) and leasing activity, and maintaining BAMC. See Note 5 for further information in relation to leasing activities and management of BAMC. In addition, see Note 6 for details of other contractual activity with BAAQMD and ABAG in relation to BAMC.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The financial statements for BAHA have been prepared in accordance with accounting principles generally accepted in the United States of America using the economic resources measurement focus and the accrual basis of accounting.

### Measurement Focus, Basis of Accounting and Financial Statement Presentation

BAHA follows Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management's Discussion & Analysis – for State and Local Governments* as amended.

### New Accounting Standards

GASB Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement for financial reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. This standard was issued in February 2015 and is effective for reporting periods beginning after June 15, 2015. This standard was adopted by BAHA for fiscal year ended June 30, 2016. The standard has resulted in additional disclosures related to fair value measurements. For additional information on the impact of adoption on BAHA's financial statements of GASB Statement No. 72, see the Cash and Investments section of this Note 2.

GASB Statement 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 No. 67 and 68,* extends the approach to accounting and financial reporting established in Statement No. 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 No. 68 should not be considered pension plan assets. It also clarifies the application of certain provisions of Statements No. 67 and 68. This standard was issued in June 2015 and is effective for reporting periods beginning after June 15, 2015. This standard did not have any impact on BAHA's financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, replaces Statement 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 those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. This standard establishes new accounting and financial reporting requirements for OPEB plans. This standard was issued in June 2015 and is effective for reporting periods beginning after June 15, 2016. This standard is not expected to have any impact on BAHA's financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, 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 other post employment benefits (OPEB). This standard establishes new accounting and financial reporting requirements for governmental entities 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. This standard was issued in June 2015 and is effective for reporting periods beginning after June 15, 2017. Management is currently evaluating the effect of this standard on BAHA's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This standard was issued in June 2015 and is effective for reporting periods beginning after June 15, 2015. The standard was adopted by BAHA for fiscal year ended June 30, 2016. The adoption of this standard did not have any impact on BAHA's financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: (1) 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 abatement recipients, (2) the gross dollar amount of taxes abated during the period, and (3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The requirements of this statement are effective for fiscal years beginning after December 15, 2015. This standard is not expected to have any impact on BAHA's financial statements.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-employer Defined Benefit Pension Plans*, amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local government 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 individual or collectively with other states 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. The requirements of this statement are effective for fiscal years beginning after December 15, 2015. This standard is not expected to have any impact on BAHA's financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, 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. 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. The requirements of this statement are effective for fiscal years beginning after December 15, 2015. This standard is not expected to have any impact on BAHA's financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*, 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 requirements of this statement are effective for reporting periods beginning after June 15, 2016. Management is currently evaluating the effect of this standard on BAHA's financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, 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. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. Management is currently evaluating the effect of this standard on BAHA's financial statements.

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statement No. 67, No. 68, and No. 73*, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information (RSI), (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. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. This standard was adopted early by BAHA in the fiscal year ended June 30, 2016. The adoption of the standard had no impact on BAHA’s financial statements.

## Cash and Investments

### *Cash and Cash Equivalents - restricted*

The composition of cash and cash equivalents at June 30, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Cash and cash deposits | $ 13,636,693 | $ 19,715,805 |
| Money market mutual funds | 14,089,075 | 7,863 |
| Total cash and cash equivalents | $ 27,725,768 | $ 19,723,668 |

### *Investments*

BAHA applies the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which sets forth the framework for measuring fair value. BAHA reports its money market investments and securities at amortized cost. This is permissible under this standard provided those investments have a remaining maturity at time of purchase of one year or less and that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

GASB Statement No. 72 provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under GASB Statement No. 72 are described as follows:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

**Level 2:** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in active markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value at June 30, 2016 and 2015:

**Government sponsored enterprises notes (included in short term investments – restricted):** These investments are valued on the basis of prices provided by Interactive Data Pricing and Reference Data LLC. In determining the value of a particular investment at bid, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments.

**Bay Area Air Quality Management District Certificates of Participation (COP) (included in long term investments – restricted):** The fair value of this instrument is determined by inputs to the valuation methodologies that are unobservable and significant to the fair value measurement.

The following tables set forth, by level within the fair value hierarchy, BAHA's investments at fair value:

| **Investments by fair value level at June 30, 2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Municipal Bonds | | | | |
| Bay Area Air Quality Management District COP | $ - | $ - | $ 30,000,000 | $ 30,000,000 |
| Total investments measured at fair value | $ - | $ - | $ 30,000,000 | $ 30,000,000 |

| **Investments by fair value level at June 30, 2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Government-Sponsored Enterprises: | | | | |
| Federal Home Loan Bank notes | $ - | $ 51,991,186 | $ - | $ 51,991,186 |
| Federal Home Loan Mortgage Corporation notes | - | 5,497,031 | - | 5,497,031 |
| Total | - | 57,488,217 | - | 57,488,217 |
| Municipal Bonds | | | | |
| Bay Area Air Quality Management District COP | - | - | 30,000,000 | 30,000,000 |
| Total investments measured at fair value | $ - | $ 57,488,217 | $ 30,000,000 | $ 87,488,217 |

### Restricted Cash and Investments

Cash and investments are restricted as these assets are to be used for a specific purpose. BAHA's sources of funds are contributions from BATA/MTC/SAFE and such funds are mainly restricted for use on the building renovation and tenant improvements.

**Capital Assets**

Capital assets, consisting of land, building and improvements, office furniture and equipment, and intangible assets, are reported at historical cost. Capital assets are defined by BAHA as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of three years. BAHA's intangible assets consist of purchased or licensed commercially available computer software.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Land is not depreciated. The other assets are depreciated using the straight-line method over the following estimated useful lives:

| | Years |
|---|---|
| Building and improvements | 7-45 |
| Office furniture and equipment | 3-15 |
| Intangible assets | 5-7 |

Only part of BAMC when acquired was occupied by a tenant, and that tenant moved out in March 2015. The occupied portion was depreciated up to March 2015. BAHA completed BAMC renovation in fiscal year 2016. Depreciation of BAMC and the assets therein commenced upon BAMC being available for occupation in May 2016.

**Net Position**

Net position represents residual interest in assets after liabilities are deducted. Net position consists of three sections: Net investment in capital assets, as well as restricted and unrestricted assets, if applicable.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 3. Deposit and Investment Risk Factors

There are many factors that can affect the value of investments. BAHA invests substantially in fixed income securities, which are affected by credit risk, custodial credit risk, concentration of credit risk, and interest rate risk.

**i) Credit Risk**

Fixed income securities are subject to credit risk, which is the possibility that the security issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

A bond's credit quality is an assessment of the issuer's ability to pay principal and interest on the bond. Credit quality may be evaluated by a nationally recognized independent credit-rating agency.

The lower the rating is, the greater the chance (in the opinion of the rating agency) that the bond issuer will fail to meet its obligations or potentially default. See part iii) of this Note 3 for further details on credit ratings.

**ii) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be recovered. All securities are held in an independent depository account maintained with the Bank of New York Mellon (BONY) Bank and held in the name of BAHA. As a result, BAHA believes custodial credit risk is remote.

**iii) Concentration of Credit Risk**

Concentration of credit risk is the risk associated with lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory or credit developments.

The weighted average maturity of each of BAHA's securities expressed in days at June 30, 2016 and 2015 is as follows:

| | **2016** | **2015** |
|---|---|---|
| Federal Home Loan Bank (FHLB) | - | 35 |
| Federal National Mortgage Association (FNMA) | - | 59 |
| Bay Area Air Quality Management District | 13,638 | 14,004 |

Investments in issuers that represent five percent or more of total cash and investments at June 30, 2016 and 2015 are as follows:

| | **2016** | **2015** | **Rating*** |
|---|---|---|---|
| FHLB | - | 48% | AA+ |
| Federal Home Loan Mortgage Corporation (FHLMC) | - | 5% | AA+ |
| Bay Area Air Quality Management District | 52% | 28% | Not rated |

*Independent agency credit-rating is the same in both fiscal years 2016 and 2015.

## 4. Capital Assets

A summary of capital assets for the period ended June 30, 2016 is as follows:

| | Beginning Balance June 30, 2015 | Increases | Decreases | Ending Balance June 30, 2016 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 33,933,809 | $ - | $ - | $ 33,933,809 |
| Building and improvements | 150,176,403 | - | (150,176,403) | - |
| Furniture and equipment | 1,578,286 | 111,805 | (1,578,286) | 111,805 |
| Total capital assets, not being depreciated | 185,688,498 | 111,805 | (151,754,689) | 34,045,614 |
| Capital assets, being depreciated: | | | | |
| Building and improvements | 275,953 | 206,942,635 | - | 207,218,588 |
| Furniture and equipment | - | 6,317,511 | - | 6,317,511 |
| Tenant improvements | - | 1,057,536 | - | 1,057,536 |
| Intangible assets | - | 1,353,781 | - | 1,353,781 |
| Total capital assets being depreciated | 275,953 | 215,671,463 | - | 215,947,416 |
| Less accumulated depreciation for: | | | | |
| Building and improvements | 275,953 | 365,219 | - | 641,172 |
| Furniture and equipment | - | 64,132 | - | 64,132 |
| Tenant improvements | - | 10,684 | - | 10,684 |
| Intangible assets | - | 22,563 | - | 22,563 |
| Total accumulated depreciation | 275,953 | 462,598 | - | 738,551 |
| Total capital assets, being depreciated, net | - | 215,208,865 | - | 215,208,865 |
| BAHA capital assets, net | $ 185,688,498 | $ 215,320,670 | $ (151,754,689) | $ 249,254,479 |

A summary of capital assets for the period ended June 30, 2015 is as follows:

| | Beginning Balance June 30, 2014 | Increases | Decreases | Ending Balance June 30, 2015 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 33,933,809 | $ - | $ - | $ 33,933,809 |
| Building and improvements | 94,670,510 | 55,505,893 | - | 150,176,403 |
| Furniture and equipment | - | 1,578,286 | - | 1,578,286 |
| Total capital assets, not being depreciated | 128,604,319 | 57,084,179 | - | 185,688,498 |
| Capital assets, being depreciated: | | | | |
| Building | 3,494,066 | - | (3,218,113) | 275,953 |
| Total capital assets being depreciated | 3,494,066 | - | (3,218,113) | 275,953 |
| Less accumulated depreciation for: | | | | |
| Building | 216,820 | 59,133 | - | 275,953 |
| Total accumulated depreciation | 216,820 | 59,133 | - | 275,953 |
| Total capital assets, being depreciated, net | 3,277,246 | (59,133) | (3,218,113) | - |
| BAHA capital assets, net | $ 131,881,565 | $ 57,025,046 | $ (3,218,113) | $ 185,688,498 |

## 5. Lease

### Operating Lease

In fiscal year 2012, in connection with the purchase of BAMC, BAHA assumed the seller's lease agreements with the U.S. Government. The real property lease agreement with the U.S. Government was a five-year agreement which expired on June 30, 2015. The lease amount was $1,460,386 a year and was adjusted annually by multiplying the base rate by the annual change in the Cost of Living Index, measured by the Department of Labor Consumer Price Index. BAHA collected nine months' rent from the U.S. Government in fiscal year 2015.

BAHA contracted Cushman & Wakefield of California, Inc. (C&W) as its sole agent and granted to C&W the exclusive right to lease non-agency space on levels one to five of BAMC to commercial and retail tenants. In March 2015, BAHA signed its first lease agreement with Rutherford + Chekene (R+C). The lease term is seven years and three months with the commencement date on June 1, 2016 and expiration date on August 31, 2023. The first three months after the commencement date is the rent abatement period. The base rent is $53,075 per month for the first 12 months and increases by an average of 2.2% every 12 months through the lease term.

In October 2015, BAHA signed a lease agreement with BATA. This lease agreement authorized BATA to sublease an area at BAMC to Xerox State and Local Solutions, Inc. (Xerox) who operates the FasTrak® Customer Service Center for BATA. The lease term is 44 months with the commencement date on May 1, 2016 and expiration date on December 31, 2019. The base rent is $101,967 per month for the first six months and increases by an average of 3% every 12 months through the lease term.

In November 2015, BAHA signed a lease agreement with Degenkolb Engineers (Degenkolb). The lease term is 120 months with an anticipated commencement date on February 1, 2017. The base rent is $87,134 per month for the first 12 months and increases by an average of 1.9% every 12 months through the lease term.

In December 2015, BAHA signed a concession agreement with Ada's Café. Ada's Café will provide food and beverage services at the ground floor retail space in BAMC. No rent will be collected from Ada's Café, however Ada's Café will pay its share of shared service costs as well as parking costs. The agreement is automatically extended every 12 months for an aggregate extension of not to exceed five years.

In January 2016, BAHA signed a lease agreement with Twilio, Inc. (Twilio). The lease term is 96 months with the commencement date in mid-October 2016. The base rent is $413,204 per month for the first 12 months and increases by an average of 1.7% every 12 months through the lease term.

Minimum future rentals of the operating leases are as follows:

| Year Ending June 30 | Rutherford + Chekene | BATA | Degenkolb | Twilio | Total |
|---|---|---|---|---|---|
| 2017 | $ 443,849 | $ 1,146,109 | $ 348,536 | $ 2,892,425 | $ 4,830,919 |
| 2018 | 606,247 | 1,285,520 | 1,054,594 | 5,017,209 | 7,963,570 |
| 2019 | 619,583 | 1,324,084 | 1,076,153 | 5,112,705 | 8,132,525 |
| 2020 | 633,058 | 668,532 | 1,097,712 | 5,204,528 | 7,603,830 |
| 2021 | 647,923 | - | 1,119,271 | 5,292,678 | 7,059,872 |
| After June 2021 | 1,450,742 | - | 6,642,867 | 18,302,160 | 26,395,769 |
| Total | $ 4,401,402 | $ 4,424,245 | $ 11,339,133 | $ 41,821,705 | $ 61,986,485 |

## 6. Commitment and Contingencies

BAHA has entered into contracts with multiple external parties to perform the design, seismic retrofitting, renovation and working space of BAMC. The renovation was completed for a move-in date of May 2016 for MTC, the Bay Area Air Quality Management District (BAAQMD), and the Association of Bay Area Governments (ABAG). As of June 30, 2016, there is approximately $2,900,000 future capital expenditure commitments, which includes $900,000 for the construction of the sidewalks abutting BAMC (expected to be completed in early 2017).

In 2012, BAHA entered into an office lease agreement with BAAQMD to occupy space in BAMC. The lease agreement grants BAAQMD the option to purchase office space (in the form of a condominium interest) in BAMC (the "Purchase Option").

On November 7, 2013, BAAQMD issued a Certificate of Participation (COP) in the amount of $30 million to secure an ownership interest in BAMC. BAHA purchased the COP and entered into a site and facilities lease and sublease agreement in relation to the condominium interest. The lease term is 30 years. The effective date of these leases will commence from the date BAAQMD exercises its Purchase Option for the premises. The proceeds of the COP are being held by a trustee in escrow on behalf of BAAQMD, and are expected to be released to BAHA at the time the Purchase Option is exercised. At the same time the Purchase Option is exercised, BAAQMD will deposit $8.5 million to the trustee to be used to pay BAHA as a prepayment of the COP. Rental payments under the site and facilities lease and sublease have been assigned to a trustee who will use these funds to pay principal and interest to BAHA under the COP.

In 2013, BAHA and ABAG signed a Memorandum of Understanding, under which ABAG intends to enter into a purchase and sale agreement with BAHA to purchase a condominium interest in BAMC from BAHA. ABAG's purchase price for the condominium interest shall be the transfer to BAHA of ABAG's condominium ownership interest in its previous headquarters, the Joseph P. Bort Metro Center, located at 101 Eighth Street, Oakland, CA 94607. In addition, ABAG paid BAHA $800,000 for capital tenant improvements to BAMC. ABAG's budget funding for the capital tenant improvements was provided by MTC.

On May 19, 2016, BAHA entered into an office lease agreement with ABAG. The agreement allowed ABAG to take occupancy of ABAG's condominium interest in BAMC prior to the purchase of BAMC's agency space. The agreement stipulates that ABAG pays no base rent, but will pay a portion of operating expenses as an additional rent starting July 2016.

In May 2016, BAAQMD and ABAG moved their offices to BAMC. BAAQMD's monthly lease payment begins in July 2016, which is to be applied toward the payment of the purchase price option. BAAQMD pays a portion of BAMC's operating expenses starting July 2016.

Both BAAQMD and ABAG are expected to exercise their respective purchase options once the condominium map for BAMC is recorded by the City of San Francisco.

## 7. Subsequent Events

BAHA has evaluated subsequent events for the period from June 30, 2016 through October 26, 2016, the date the financial statements were available to be issued, and no material subsequent events have been identified.