

**AC TRANSIT DISTRICT  
FINANCING CORPORATION**  
(A Component Unit of the  
Alameda-Contra Costa Transit District)

**BASIC FINANCIAL STATEMENTS**  
June 30, 2019

**DRAFT**  
AC TRANSIT DISTRICT  
FINANCING CORPORATION  
(A Component Unit of the  
Alameda-Contra Costa Transit District)

BASIC FINANCIAL STATEMENTS  
June 30, 2019

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
AC Transit District Financing Corporation  
Oakland, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the AC Transit District Financing Corporation (the Corporation), a component unit of Alameda-Contra Costa Transit District (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Corporation'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 financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 entity'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 entity'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.

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(Continued)

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the AC Transit District Financing Corporation, as of June 30, 2019, and the changes in its financial position and its 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 on pages 3 - 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 <>, 2019 on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.



San Francisco, California  
<>, 2019

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**MANAGEMENT DISCUSSION AND ANALYSIS**

**DRAFT**  
AC TRANSIT DISTRICT FINANCING CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019  
(In thousands)

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## INTRODUCTION

The following discussion and analysis of the AC Transit Financing Corporation (Corporation) provides an overview of its financial activities for the fiscal year ended June 30, 2019. This discussion should be read in conjunction with the Corporation's basic financial statements attached to this discussion.

### **Financial Statements**

The Corporation is organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California for the purpose of providing financial assistance to the Alameda-Contra Costa Transit District (AC Transit) by financing the following capital activities: acquiring, constructing, improving and developing certain real and personal property for the use, benefit, and enjoyment of the public. The Corporation provided funding to AC Transit to acquire an office building used by AC Transit as its administrative headquarters. In addition, the Corporation has provided funding to acquire and install a financial and human resources/payroll software system, including the wiring and implementation of support services during the first year following completion and the acquisition of land and buildings located on or near 66<sup>th</sup> Avenue in Oakland, California.

In fiscal year 2012, AC Transit Financing Corporation refinanced the 2001 COPS and was renamed the 2012 Certificates of Participation (2012 COPS). Under lease agreements, AC Transit is required to pay a third-party trustee specified lease payments due to holders of the 2009 Certificates of Participation (2009 COPS) and the 2012 Certification or Participation (2012 COPS). The Corporation is considered a blended component unit of AC Transit; therefore, the financial position and activities of the Corporation are included in AC Transit's basic financial statements.

The basic financial statements provide short-term and long-term financial information about the Corporation's financial activities.

## FINANCIAL BALANCES HIGHLIGHTS

A condensed summary of the Corporation's statements of net assets at June 30, 2019 and 2018 is shown below (in thousands):

|                         | <u>2018</u>   | <u>2018</u>   |
|-------------------------|---------------|---------------|
| <b>Assets:</b>          |               |               |
| Current assets          | \$ 798        | \$ 2,595      |
| Other noncurrent assets | <u>12,169</u> | <u>12,603</u> |
| Total assets            | <u>12,967</u> | <u>15,198</u> |
| <b>Liabilities:</b>     |               |               |
| Current liabilities     | 798           | 2,595         |
| Noncurrent liabilities  | <u>11,852</u> | <u>12,308</u> |
| Total liabilities       | <u>12,650</u> | <u>14,903</u> |
| <b>Net position:</b>    |               |               |
| Restricted              | 317           | 295           |
| Unrestricted            | <u>-</u>      | <u>-</u>      |
| Total net position      | <u>\$ 317</u> | <u>\$ 295</u> |

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**DRAFT**  
AC TRANSIT DISTRICT FINANCING CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019  
(In thousands)

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**FINANCIAL BALANCES HIGHLIGHTS (Continued)**

Net position increased \$21 thousand at June 30, 2019 and decreased \$17 thousand at June 30, 2018. Both assets and liabilities have decreased due primarily to the principal payments for the COPS and the related lease receivable. Current assets and current liabilities each decreased by \$1.8 million from June 30, 2018 to June 30, 2019, which represents the current portion of the COPS and the interest receivable and payable. Noncurrent assets and noncurrent liabilities each decreased by \$2.2 million from June 30, 2018 to June 30, 2019 which represents the reduction of leases receivable and COPS.

**FINANCIAL OPERATIONS HIGHLIGHTS**

A condensed summary of revenues and expenses for the years ended June 30, 2019 and 2018 is shown below (in thousands):

|  | <u>2019</u>    | <u>2018</u>    |
|--|----------------|----------------|
| <b>Operating revenues</b>                | \$ 690         | \$ 733         |
| <b>Non-operating revenues (expenses)</b> | <u>(669)</u>   | <u>(750)</u>   |
| Change in net position                   | <u>\$ (21)</u> | <u>\$ (17)</u> |

Operating revenues from 2018 to 2019 decreased by \$43 thousand. The change in operating revenues is due to lease interest income reduction year over year. Non-operating expenses decreased by \$81 thousand from 2018 to 2019 due to the amortization of premium/discount and lower interest expense.

**REQUEST FOR INFORMATION**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Department of Finance, 1600 Franklin Street, Oakland, CA 94612.

**DRAFT**  
AC TRANSIT DISTRICT FINANCING CORPORATION  
STATEMENT OF FUND NET POSITION  
June 30, 2019  
(In thousands)

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**ASSETS**

Current assets

|  |            |
|--|------------|
| Interest receivable from AC Transit                  | \$ 333     |
| Leases receivable from AC Transit - Current (Note 3) | <u>465</u> |

Total current assets 798

Noncurrent assets

|   |               |
|---|---------------|
| Restricted cash and cash equivalents (Note 2)           | 1,169         |
| Leases receivable from AC Transit - Noncurrent (Note 3) | <u>11,000</u> |

Total noncurrent assets 12,169

Total assets \$ 12,967

**LIABILITIES**

Current liabilities

|   |            |
|---|------------|
| Accrued interest payable                                  | \$ 333     |
| Current portion of certificates of participation (Note 4) | <u>465</u> |

Total current liabilities 798

Noncurrent assets

|   |              |
|---|--------------|
| Certificates of participation, long-term portion (Note 4) | 10,704       |
| Deposits payable to AC Transit                            | <u>1,148</u> |

Total noncurrent liabilities 11,852

Total liabilities 12,650

**NET POSITION**

|                             |            |
|-----------------------------|------------|
| Restricted for debt service | <u>317</u> |
|-----------------------------|------------|

Total liabilities and net position \$ 12,967

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The accompanying notes are an integral part of these basic financial statements.



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AC TRANSIT DISTRICT FINANCING CORPORATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
For the year ended June 30, 2019  
(In thousands)

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**Operating Revenues**

Lease interest from AC Transit \$ 690

Total operating revenues 690

**Nonoperating revenues (expenses)**

Interest on certificates of participation (669)

Total nonoperating revenues (expenses) (669)

Change in net position 21

Net position at beginning of year 296

**Net position at end of year** \$ 317

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The accompanying notes are an integral part of these basic financial statements.

DRAFT  
AC TRANSIT DISTRICT FINANCING CORPORATION  
STATEMENT OF CASH FLOWS  
For the year ended June 30, 2019  
(In thousands)

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|  |                               |
|--|-------------------------------|
| <b>Cash flows from operating activities:</b>   |                               |
| Cash received from lessee  | \$ 2,666                      |
|  |                               |
| Net cash provided by operating activities  | <u>2,666</u>                  |
| <b>Cash flows from capital and related financing activities:</b>                           |                               |
| Cash payments for principal on certificates of participation                               | (2,220)                       |
| Cash payments for interest on certificates of participation                                | <u>923</u>                    |
|  |                               |
| Net cash used in capital and related financial activities                                  | <u>(1,297)</u>                |
|  |                               |
| Change in cash and cash equivalents  | 1,369                         |
|  |                               |
| Cash and cash equivalents, beginning of year   | <u>1,138</u>                  |
|  |                               |
| <b>Cash and cash equivalents, end of year</b>  | <b><u><u>\$ 2,507</u></u></b> |
|  |                               |
| Reconciliation of operating income to net cash<br>provided by operating activities:        |                               |
| Operating income   | \$ 690                        |
| Amortization   | (296)                         |
| Adjustments to reconcile operating income to<br>net cash provided by operating activities: |                               |
| Changes in operating assets and liabilities:   |                               |
| Decrease in lease receivable   | 2,220                         |
| Decrease in interest receivable from AC Transit  | 42                            |
| Increase in deposits payable to AC Transit   | <u>11</u>                     |
|  |                               |
| Net cash provided by operating activities  | <b><u><u>\$ 2,666</u></u></b> |

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The accompanying notes are an integral part of these basic financial statements.

DRAFT  
AC TRANSIT DISTRICT FINANCING CORPORATION  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2019  
(In thousands)

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**NOTE 1 – THE FINANCIAL REPORTING ENTITY**

Organization: AC Transit District Financing Corporation (Corporation) is organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California for the purpose of providing financial assistance to the Alameda-Contra Costa Transit District (AC Transit) by acquiring, constructing, improving, and developing certain real and personal property for the use, benefit, and enjoyment of the public. The Corporation was incorporated in May 1988. The Corporation's Board of Directors is the same as AC Transit's Board of Directors, and AC Transit has oversight responsibility over the Corporation. AC Transit is responsible for paying all operating expenses of the Corporation. In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14 and 80, the Corporation is considered a blended component unit of AC Transit; therefore, the financial position and activities of the Corporation are included in AC Transit's basic financial statements.

Basis of Accounting: The Corporation maintains its records on the accrual basis of accounting as an enterprise fund. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interest Income: Interest income on the lease receivable from AC Transit is recorded as revenue in the year in which the interest is earned.

Cash and Cash Equivalents: For purposes of the statements of cash flows, the Corporation defines cash and cash equivalents as cash on hand and investments with a maturity of three months or less from the date of purchase.

Restricted Cash and Cash Equivalents: Trustee accounts that are restricted to specific uses are classified as restricted cash and cash equivalents. Pursuant to trust agreements by and between the Corporation, AC Transit and the trustee, the restricted assets can only be used to service the principal and interest of the outstanding certificates of participation.

Certificates of Participation Premium/Discount: Certificates of participation premiums and discounts are amortized on a straight-line basis, which is materially consistent with the effective interest method, over the life of the certificates. Amortization of the premiums and discounts are reported as components of interest expense.

Net Position: Net position is classified as restricted for debt service, which consists of funds held for the repayment of debt principal or interest. The Corporation had no unrestricted net position as of June 30, 2019.

Statement of Revenues, Expenses, and Changes in Fund Net Position: The statement of revenues, expenses, and changes in fund net position is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and other income. Operating revenues and expenses generally result from providing services in connection with their principal ongoing operations. The principal operating revenues of the Corporation is lease interest received from the District in providing financial assistance to the District. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets and equipment. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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(Continued)

DRAFT  
AC TRANSIT DISTRICT FINANCING CORPORATION  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2019  
(In thousands)

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**NOTE 2 – CASH AND CASH EQUIVALENTS**

The Corporation's restricted cash and cash equivalents consisted of the following at June 30, 2019 (in thousands):

|                                 | <u>Fair Value</u> | <u>Maturity Dates<br/>Less Than<br/>One Year</u> |
|---------------------------------|-------------------|--|
| Noncurrent                      |                   |  |
| Money Market funds              | \$ 1,169          | \$ 1,169   |
| Total cash and cash equivalents | <u>\$ 1,169</u>   | <u>\$ 1,169</u>                                  |

Interest Rate Risk: State law limits investment maturities to five years as a means of managing entities' exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Corporation does not have a credit risk policy. As of June 30, 2019, the Corporation had no investment that is subject to credit risk exposure.

Concentration of Credit Risk: Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Corporation. Disclosure of concentration of credit risk is defined as any investments with one issuer that are greater than 5% of the total Corporation investments. As of June 30, 2019, the Corporation had no investments in a single issuer that equaled or exceeded 5% of the Corporation's net position.

**NOTE 3 – LEASES RECEIVABLE FROM AC TRANSIT**

Pursuant to the 2009A Trust Agreement with AC Transit (2009A Trust Agreement), AC Transit borrowed \$15,000,000 from the Corporation in order to acquire land on 66th Avenue. The 2009A Trust Agreement requires AC Transit to make installment payments to the Corporation from AC Transit's revenues. Interest on the lease receivable ranges from 3.00% to 6.125 % payable semiannually on February 1 and August 1 of each year. Principal payments are due on each August 1. In addition, the Corporation is reporting a payable to AC Transit, which represents the reserve account securing the Certificates of Participation, Series 2009. It is expected that the reserve account will be used to make the final lease payment; however, in the event that AC Transit pays the entire lease balance before the final lease payment is due, the reserve account would be returned to AC Transit.

Pursuant to the 2012 Trust Agreement with AC Transit (2012 Trust Agreement), AC Transit borrowed \$9,840,000 from the Corporation in order to effectively refinance AC Transit's obligations under the 2001 Installment Agreement with AC Transit. The 2012 Trust Agreement requires AC Transit to make installment payments to the Corporation from AC Transit's revenues; however, there is no specific pledge of the revenue for the payment of the lease receivable from AC Transit. Interest on the lease receivable ranges from 3.00% to 4.75%, payable semiannually on February 1 and August 1 of each year. Principal payments were due on each August 1. The final principal payment was made during the year ended June 30, 2019.

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(Continued)

**DRAFT**  
**AC TRANSIT DISTRICT FINANCING CORPORATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2019  
 (In thousands)

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**NOTE 3 – LEASES RECEIVABLE FROM AC TRANSIT (Continued)**

The Corporation's total receipts on the leases receivable from AC Transit for each of the next five fiscal years and thereafter (which are equal to the payments required by the outstanding certificates of participation) are summarized as follows (in thousands):

| <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u>     |
|-------------------|------------------|-----------------|------------------|
| 2020              | \$ 465           | \$ 660          | \$ 1,125         |
| 2021              | 485              | 637             | 1,122            |
| 2022              | 510              | 611             | 1,121            |
| 2023              | 535              | 584             | 1,119            |
| 2024              | 565              | 555             | 1,120            |
| Thereafter        |                  |                 |                  |
| 2025-2029         | 3,340            | 2,237           | 5,577            |
| 2030-2034         | 4,495            | 1,049           | 5,544            |
| 2035-2036         | <u>1,070</u>     | <u>33</u>       | <u>1,103</u>     |
| Total             | <u>\$ 11,465</u> | <u>\$ 6,366</u> | <u>\$ 17,831</u> |

The leases receivable have been discounted for amounts related to the refunding. As of June 30, 2019, the leases receivable are determined as follows (in thousands):

|   |                  |
|---|------------------|
| Total principal due   | \$ 11,465        |
| Less: current portion   | <u>465</u>       |
| Lease receivable, noncurrent<br>(Net of noncurrent portion of discount) | <u>\$ 11,000</u> |

**NOTE 4 – CERTIFICATES OF PARTICIPATION**

On February 1, 2009, proceeds from the issuance of \$15 million of Certificates of Participation Series 2009A (2009A COPS) were used to acquire the land at 66th Avenue and all existing facilities and improvements. Interest on the 2009A COPS is payable semiannually on February 1 and August 1 of each year through the year 2034.

On February 1, 2012, the District issued Refunding Certificates of Participation Series 2012 (2012 COPS). The proceeds from the issuance of the \$9.84 million were used to refund and retire the 2001 COPS. Interest on the 2012 COPS was payable semi-annually on February 1 and August 1 of each year through the year 2018. The final principal payments were made in fiscal year 2019.

The following is a summary of the Corporation's certificates of participation transactions for the fiscal year ended June 30, 2019:

|   |                  |
|---|------------------|
| Total principal due (net of premium/discount) | \$ 11,169        |
| Current portion                               | <u>465</u>       |
| Principal, noncurrent                         | <u>\$ 10,704</u> |

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(Continued)

DRAFT  
AC TRANSIT DISTRICT FINANCING CORPORATION  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2019  
(In thousands)

**NOTE 4 – CERTIFICATES OF PARTICIPATION** (Continued)

The Corporation's debt service requirements to maturity for each of the next five fiscal years and thereafter are summarized as follows (in thousands):

| <u>Year Ended</u>                       | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|---|----------------------|---------------------|----------------------|
| 2020                                    | \$ 465               | \$ 660              | \$ 1,125             |
| 2021                                    | 485                  | 637                 | 1,122                |
| 2022                                    | 510                  | 611                 | 1,121                |
| 2023                                    | 535                  | 584                 | 1,119                |
| 2024                                    | 565                  | 555                 | 1,120                |
| Thereafter                              |                      |                     |                      |
| 2025-2029                               | 3,340                | 2,237               | 5,577                |
| 2030-2034                               | 4,495                | 1,049               | 5,544                |
| 2035-2036                               | <u>1,070</u>         | <u>33</u>           | <u>1,103</u>         |
| <br>Total                               | <br><u>11,465</u>    | <br><u>\$ 6,366</u> | <br><u>\$ 17,831</u> |
| <br>Unamortized premium<br>and discount | <br><u>(296)</u>     |                     |                      |
| <br>Total                               | <br><u>\$ 11,169</u> |                     |                      |

The following is a summary of changes in the Corporation's long-term liabilities for the year ended June 30, 2019 (in thousands):

|                                | <u>Original<br/>Issue<br/>Amount</u> | <u>Balance<br/>June 30,<br/>2018</u> | <u>Additions</u> | <u>Retirements</u>  | <u>Balance<br/>June 30,<br/>2019</u> | <u>Amount<br/>Due Within<br/>One Year</u> |
|--------------------------------|--------------------------------------|--------------------------------------|------------------|---------------------|--------------------------------------|---|
| 2009A COP                      |                                      |                                      |                  |                     |                                      |   |
| 3%-6.125%, due August 1, 2034  | 15,000                               | 11,910                               | -                | (445)               | 11,465                               | 465                                       |
| Less unamortized discount      |                                      | (296)                                | -                | -                   | (296)                                | -   |
| 2012 Refunding COP             |                                      |                                      |                  |                     |                                      |   |
| 4% - 4.75%, due August 1, 2018 | 9,840                                | <u>1,775</u>                         | -                | (1,775)             | -                                    | -   |
| <br>Total long-term debt       |                                      | <br><u>\$ 13,389</u>                 | <br><u>\$ -</u>  | <br><u>\$ 2,220</u> | <br><u>\$ 11,169</u>                 | <br><u>\$ 465</u>                         |