

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

BASIC FINANCIAL STATEMENTS
June 30, 2020

DRAFT
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Alameda-Contra Costa Transit District)

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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, 2020, 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.

(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, 2020, 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 _____, 2020 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 the effectiveness of the Corporation's 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
_____, 2020

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MANAGEMENT DISCUSSION AND ANALYSIS

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AC TRANSIT DISTRICT FINANCING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020
(In thousands)

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, 2020. 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 66th Avenue in Oakland, California.

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 2019 Certification or Participation (2019 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, 2020 and 2019 is shown below (in thousands):

	<u>2020</u>	<u>2019</u>
Assets:		
Current assets	\$ 145	\$ 798
Other noncurrent assets	<u>12,792</u>	<u>12,169</u>
Total assets	<u>12,937</u>	<u>12,967</u>
Deferred outflows of resources:		
Deferred loss on refunding debt	583	-
Liabilities:		
Current liabilities	145	798
Noncurrent liabilities	<u>12,792</u>	<u>11,852</u>
Total liabilities	<u>12,937</u>	<u>12,650</u>
Net position:		
Restricted	<u>583</u>	<u>317</u>
Total net position	<u>\$ 583</u>	<u>\$ 317</u>

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AC TRANSIT DISTRICT FINANCING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020
(In thousands)

FINANCIAL BALANCES HIGHLIGHTS (Continued)

Net position increased \$266 thousand at June 30, 2020 and increased \$21 thousand at June 30, 2019. Current assets and current liabilities each decreased by \$643 thousand from June 30, 2019 to June 30, 2020, which represents the interest receivable and payable. Noncurrent assets increased by \$623 thousand from June 30, 2019 to June 30, 2020 which primarily represents the increase in lease receivable. Noncurrent liabilities increased by \$940 thousand from June 30, 2019 to June 30, 2020 which primarily represents the increase in COPS.

FINANCIAL OPERATIONS HIGHLIGHTS

A condensed summary of revenues and expenses for the years ended June 30, 2020 and 2019 is shown below (in thousands):

	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 870	\$ 690
Non-operating revenues (expenses)	<u>(604)</u>	<u>(669)</u>
Change in net position	<u>\$ 266</u>	<u>\$ 21</u>

Operating revenues from 2019 to 2020 decreased by \$214 thousand. The change in operating revenues is due to lease interest income reduction year over year. Non-operating expenses decreased by \$65 thousand from 2019 to 2020 due to the amortization of premium/discount and lower interest expense.

FACTORS IMPACTING FUTURE PERIODS

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic and the State of California issued a statewide shelter-in-place order that continues to have a significant impact on the operations and business results of the Corporation.

The U.S. Economy decreased by 5.0% in the first quarter and 31.7% in the second quarter of 2020. The large second quarter decrease was due to the impact of COVID-19. The decline in the second quarter reflects a decrease in investments, exports, goods and services. In the middle of March, the spending of corporations and state and local governments decreased or was redirected as state and local governments issued shelter-in-place or stay-at-home orders. This greatly impacted the employment rate and local sales tax revenue.

The extent to which the coronavirus may impact business activity, including ridership and operating grants, will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. Management has not included any contingencies in the financial statements specific to this recent event.

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.

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AC TRANSIT DISTRICT FINANCING CORPORATION
STATEMENT OF FUND NET POSITION
June 30, 2020
(In thousands)

ASSETS

Current assets

Interest receivable from AC Transit	\$ 145
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Total current assets	145
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Noncurrent assets

Restricted cash and cash equivalents (Note 2)	1,137
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Leases receivable from AC Transit - Noncurrent (Note 3)	<u>11,655</u>
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Total noncurrent assets	<u>12,792</u>
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Total assets	<u>12,937</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding debt (Note 4)	<u>583</u>
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Total assets and deferred outflows of resources	<u><u>\$ 13,520</u></u>
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LIABILITIES

Current liabilities

Accrued interest payable	\$ 145
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Total current liabilities	<u>145</u>
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Noncurrent liabilities

Certificates of participation, long-term portion (Note 4)	11,655
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Deposits payable to AC Transit	<u>1,137</u>
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Total noncurrent liabilities	<u>12,792</u>
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Total liabilities	<u>12,937</u>
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NET POSITION

Restricted for debt service	<u>583</u>
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Total liabilities and net position	<u><u>\$ 13,520</u></u>
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The accompanying notes are an integral part of these basic financial statements.

DRAFT
AC TRANSIT DISTRICT FINANCING CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the year ended June 30, 2020
(In thousands)

Operating Revenues

Lease interest from AC Transit	\$ 870
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Total operating revenues	<u>870</u>
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Nonoperating revenues (expenses)

Interest on certificates of participation	<u>(604)</u>
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Total nonoperating revenues (expenses)	<u>(604)</u>
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Change in net position	266
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Net position at beginning of year	<u>317</u>
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Net position at end of year	<u><u>\$ 583</u></u>
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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 CASH FLOWS
For the year ended June 30, 2020
(In thousands)

Cash flows from operating activities:

Cash received from lessee \$ 857

Net cash provided by operating activities 857

Cash flows from capital and related financing activities:

Cash payments for principal on certificates of participation (97)

Cash payments for interest on certificates of participation (792)

Net cash used in capital and related financial activities (889)

Change in cash and cash equivalents (32)

Cash and cash equivalents, beginning of year 1,169

Cash and cash equivalents, end of year \$ 1,137

Reconciliation of operating income to net cash
provided by operating activities:

Operating income \$ 870

Adjustments to reconcile operating income to
net cash provided by operating activities:

Changes in operating assets and liabilities:

Decrease in lease receivable (190)

Decrease in interest receivable from AC Transit 188

Increase in deposits payable to AC Transit (11)

Net cash provided by operating activities \$ 857

Non-cash activities:

COPS refunding \$ 11,655

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, 2020
(In thousands)

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, 2020.

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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AC TRANSIT DISTRICT FINANCING CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020
(In thousands)

NOTE 2 – CASH AND CASH EQUIVALENTS

The Corporation's restricted cash and cash equivalents consisted of the following at June 30, 2020 (in thousands):

	<u>Fair Value</u>	<u>Maturity Dates Less Than One Year</u>
Noncurrent		
Money Market funds	\$ 1,137	\$ 1,137
Total cash and cash equivalents	<u>\$ 1,137</u>	<u>\$ 1,137</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, 2020, 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, 2020, 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 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.

Pursuant to the 2019 Trust Agreement with AC Transit (2019 Trust Agreement), AC Transit borrowed \$11,655 from the Corporation in order to effectively refinance AC Transit's obligations under the 2009 Trust Agreement with AC Transit. The 2019 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 through 2034. Principal payments were 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 2019. 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.

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AC TRANSIT DISTRICT FINANCING CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020
(In thousands)

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>
2021	\$ -	\$ 47	\$ 47
2022	-	340	340
2023	435	336	771
2024	800	322	1,122
2025	820	302	1,122
Thereafter			
2026-2030	4,445	1,163	5,608
2031-2034	<u>5,155</u>	<u>432</u>	<u>5,587</u>
Total	<u>\$ 11,655</u>	<u>\$ 3,282</u>	<u>\$ 14,937</u>

The leases receivable have been discounted for amounts related to the refunding. As of June 30, 2020, the leases receivable are determined as follows (in thousands):

Total principal due	\$ 11,655
Less: current portion	<u>-</u>
Lease receivable, noncurrent	
(Net of noncurrent portion of discount)	<u>\$ 11,655</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 August 1, 2019, the Corporation issued Refunding Certificates of Participation Series 2019 (2019 COPS). The proceeds (less \$408 of issuance costs and underwriters fees) from the issuance of the \$11.66 million were used to advance refund and retire the 2009A COPS. Interest on the 2019 COPS is payable semi-annually on February 1 and August 1 of each year through the year 2034. There is no right under any circumstances to accelerate the payments or otherwise declare any payments not then in default to be immediately due and payable.

The Corporation advance refunded the Series 2009A COPS to reduce its total debt service payments over the next 23 years by approximately \$2,094 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,984.

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AC TRANSIT DISTRICT FINANCING CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020
(In thousands)

NOTE 4 – CERTIFICATES OF PARTICIPATION (Continued)

The following is a summary of the Corporation's certificates of participation transactions for the fiscal year ended June 30, 2020:

Total principal due (net of premium/discount)	\$ 11,655
Current portion	<u>-</u>
Principal, noncurrent	<u>\$ 11,655</u>

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>
2021	\$ -	\$ 47	\$ 47
2022	-	340	340
2023	435	336	771
2024	800	322	1,122
2025	820	302	1,122
Thereafter			
2026-2030	4,445	1,163	5,608
2031-2034	<u>5,155</u>	<u>432</u>	<u>5,587</u>
Total	<u>\$ 11,655</u>	<u>\$ 3,282</u>	<u>\$ 14,937</u>

The following is a summary of changes in the Corporation's long-term liabilities for the year ended June 30, 2020 (in thousands):

	<u>Original Issue Amount</u>	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2020</u>	<u>Amount Due Within One Year</u>
2009A COP						
3%-6.125%, due August 1, 2034	15,000	11,465	-	(11,465)	-	-
Less unamortized discount		(296)	-	296	-	-
2019 Refunding COP						
2.195%-3.326%, due August 1, 2034	11,655	<u>-</u>	<u>11,655</u>	<u>-</u>	<u>11,655</u>	<u>-</u>
Total long-term debt		<u>\$ 11,465</u>	<u>\$ 11,655</u>	<u>\$(11,169)</u>	<u>\$ 11,655</u>	<u>\$ -</u>

NOTE 5 – CONTINGENCIES

Business Disruption: In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a global pandemic. COVID-19 has impacted economic activity and financial markets globally and locally and has resulted in uncertainty for the District and the Corporation. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. However, the District received Federal CARES Act funding and created health and safety guidelines to help mitigate the impact of the disruption in operations for the year ended June 30, 2020 and the subsequent fiscal year.

The extent to which COVID-19 impacts the District and Corporation will depend on future developments, which are still highly uncertain and cannot be predicted. As a result, the Corporation has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2021.