

Bay Area Headquarters Authority

Financial Statements

As of and for the Years Ended June 30, 2019 and 2018

Bay Area Headquarters Authority
Table of Contents
As of and for the Years Ended June 30, 2019 and 2018

	Page
Report of Independent Auditors	1 - 2
Management's Discussion and Analysis	3 - 6
Basic Financial Statements	
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9 - 10
 Notes to the Financial Statements	 11 - 21



Report of Independent Auditors

To the Members of the Committee of the
Bay Area Headquarters Authority:

We have audited the accompanying financial statements of the Bay Area Headquarters Authority (BAHA), a discretely presented component unit of the Metropolitan Transportation Commission, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended.

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 financial position of the Bay Area Headquarters Authority as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matter

The accompanying management's discussion and analysis ("MD&A") on pages 3 through 6 is 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
October 29, 2019

Bay Area Headquarters Authority

Financial Statements as of and for the Years Ended June 30, 2019 and 2018

Management's Discussion and Analysis (unaudited)

Management's Discussion and Analysis

This financial report is designed to provide a general overview of the Bay Area Headquarters Authority's (BAHA) financial statements, 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, 2019 and 2018. 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 Powers 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 was named Bay Area Metro Center (BAMC).

In May 2016, MTC, BAAQMD, and ABAG moved into the Building. In June 2017, BAHA, BAAQMD, and ABAG formed a nonprofit mutual benefit organization, 375 Beale Condominium Corporation ("375 Beale Condo") to manage the condominium interest at BAMC. The three agencies also established a Declaration of Covenants, Conditions and Restrictions, which governs the policy and operating guidance for 375 Beale Condo.

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's 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) Twilio, Inc. leased office space on BAMC's fifth floor for a short-term period starting from October 2018 to June 2019.
- 2) Rent revenue reached \$9 million at the end of the fiscal year.

B. Overview of the BAHA Financial Statements

BAHA's 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.

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

Bay Area Headquarters Authority
Financial Statements as of and for the Years Ended June 30, 2019 and 2018
Management's Discussion and Analysis (unaudited)

Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows are presented on pages 7 – 10 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:

	2019	2018	2017
Cash	\$ 25,863,582	\$ 21,332,976	\$ 26,794,258
Receivables	3,228,770	242,360	1,654,459
Other assets	375,948	553,468	685,495
Capital assets	209,280,957	219,135,817	217,256,873
Total assets	238,749,257	241,264,621	246,391,085
Deferred outflows	232,178	455,908	410,011
Other liabilities	4,932,820	4,092,827	2,907,645
Long term liabilities	375,652	785,298	576,031
Total liabilities	5,308,472	4,878,125	3,483,676
Deferred inflows	65,394	-	9,766
Net position			
Net investment in capital assets	209,280,957	219,135,817	217,256,873
Restricted for capital projects	4,780,457	3,627,118	13,398,808
Unrestricted	19,546,155	14,079,469	12,651,973
Total net position	\$ 233,607,569	\$ 236,842,404	\$ 243,307,654

Cash increased by \$4,530,606 in fiscal year 2019 and decreased by \$5,461,282 in fiscal years 2018. The increase in fiscal year 2019 is a result of increases in rent and parking revenues offset by a decrease in operating expenditures. The decrease in fiscal year 2018 is mainly due to ongoing building improvements and furniture and equipment purchases.

The receivables increased by \$2,986,410 in fiscal year 2019 after decreasing by \$1,412,099 in fiscal year 2018. The increase in fiscal year 2019 is a result of a \$3 million contribution receivable from BAAQMD. The decrease in fiscal year 2018 is mainly due to no assessment fee receivables compared to \$1.3 million assessment fee receivables recognized by BAHA in fiscal year 2017.

Capital assets decreased by \$9,854,860 in fiscal year 2019 and increased by \$1,878,944 in fiscal year 2018. The decrease in fiscal year 2019 is mainly due to the sale of space and furniture on BAMC's 8th floor to BAAQMD. The increase in fiscal year 2018 is mainly due to building improvements and purchases of furniture and equipment.

Bay Area Headquarters Authority
Financial Statements as of and for the Years Ended June 30, 2019 and 2018
Management's Discussion and Analysis (unaudited)

Current liabilities increased by \$839,993 and \$1,185,182 in fiscal year 2019 and 2018 respectively. The increase in fiscal year 2019 is a result of increases of approximately \$550,000 in unearned revenue and \$300,000 in tenants' security deposits. The increase in fiscal year 2018 is mainly due to the accrual of possessory interest tax.

Non-current liabilities decreased by \$409,646 in fiscal year 2019 and increased by \$209,267 in fiscal years 2018. The decrease in fiscal year 2019 is mainly due to decreases in net pension and OPEB liabilities. The increase in fiscal year 2018 is a result of OPEB liabilities recognized by BAHA after adopting GASB Statement No. 75 in that fiscal year.

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:

	2019	2018	2017
Operating revenue			
Rental income	\$ 9,318,889	\$ 8,044,593	\$ 5,880,362
Assessment fees	152,000	-	4,474,984
Other operating revenues	499,544	484,542	102,666
Total operating revenue	9,970,433	8,529,135	10,458,012
Operating expenses			
Salaries and benefits	411,866	1,226,051	1,698,127
Professional fees and property management	846,417	1,669,521	2,419,433
Repairs / maintenance and supplies	1,021,065	1,172,543	1,371,053
Security and cleaning service	1,150,323	1,077,523	1,704,688
Depreciation	6,638,385	6,433,075	6,778,923
Possessory tax	599,002	1,346,538	-
Other expenses	1,867,715	2,946,610	4,777,628
Total operating expenses	12,534,773	15,871,861	18,749,852
Operating loss	(2,564,341)	(7,342,726)	(8,291,840)
Nonoperating revenues / (expenses)			
Interest and miscellaneous income / (expenses)	(3,835,916)	911,832	(20,915,072)
Total nonoperating revenues / (expenses)	(3,835,916)	911,832	(20,915,072)
Capital contributions / Transfers in	3,165,421	56,370	-
Changes in net position	(3,234,835)	(6,374,524)	(29,206,912)
Net position - beginning	236,842,404	243,216,928 *	272,514,566
Net position - ending	\$ 233,607,569	\$ 236,842,404	\$ 243,307,654

* In fiscal year 2018, beginning balance was restated due to the adoption of GASB statement No. 75.
See Note 6 for additional information.

Bay Area Headquarters Authority
Financial Statements as of and for the Years Ended June 30, 2019 and 2018
Management's Discussion and Analysis (unaudited)

BAHA's operating revenues increased by \$1,441,298 in fiscal year 2019 after a decrease of \$1,928,877 in fiscal year 2018. The increase in fiscal year 2019 is mainly due to increase of approximately \$1.3 million in rental income. During fiscal year 2018, 375 Beale Condominium Corporation went active and as such the assessment fees were recognized by 375 Beale Condo. The decrease in fiscal year 2018 is a result of a decrease of \$4.5 million in assessment fees offset by increases of \$2.6 million in rent and other operating revenue.

Total operating expenses decreased by \$3,337,088 in fiscal year 2019 and \$2,877,991 in fiscal year 2018. The decrease in fiscal year 2019 is a result of decreases of approximately \$1.1 million in salaries and benefits and overhead due to winding down of capital projects in BAMC, \$901,385 in refund of excess assessment fees, \$812,532 in professional fees, and \$747,536 in possessory tax. The decrease in fiscal year 2018 is mainly due to certain building operation expenses that were previously the responsibility of BAHA subsequently assumed by 375 Beale Condo.

BAHA had net nonoperating expenses of \$3,835,916 in fiscal year 2019 compared to net nonoperating revenues of \$911,832 in fiscal year 2018. The nonoperating expenses in fiscal year 2019 mainly consist of \$3.9 million return of contribution to BATA and a loss on the sale of capital assets from BAHA to BAAQMD. The nonoperating revenues in fiscal year 2018 are primarily interest earnings and miscellaneous expenses.

D. Notes to the Financial Statements

The notes to the financial statements, beginning on page 11, 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 grow from previous years. The region's unemployment rate remains low at 3 percent as of June 30, 2019, and sales tax revenue has increased by 8.3 percent and 4.3 percent for fiscal years 2019 and 2018 respectively. BAHA has had stable rental income during the fiscal year since BAHA's lease agreements are long term and not impacted by the growing economy.

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, Bay Area Headquarters Authority, 375 Beale Street, Suite 800, San Francisco, CA 94105.

Bay Area Headquarters Authority
Statements of Net Position
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash - unrestricted	\$ 21,083,125	\$ 17,705,858
Cash - restricted	4,780,457	3,627,118
Accounts receivable	3,228,728	237,904
Due from other governments	-	4,438
Accrued interest	42	18
Prepaid expenses	375,948	553,468
Total current assets	<u>29,468,300</u>	<u>22,128,804</u>
Non-current assets:		
Capital assets, not being depreciated	34,817,968	33,933,809
Capital assets, net of accumulated depreciation	174,462,989	185,202,008
Total non-current assets	<u>209,280,957</u>	<u>219,135,817</u>
TOTAL ASSETS	<u>238,749,257</u>	<u>241,264,621</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pension	102,800	343,203
Deferred outflows from OPEB	129,378	112,705
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>232,178</u>	<u>455,908</u>
LIABILITIES		
Current liabilities:		
Accounts payable	583,390	446,901
Retention payable	70,696	422,384
Accrued liabilities	2,192,500	1,863,000
Unearned revenue	587,176	-
Compensated absences liability	25,651	58,596
Tenants' security deposits	345,776	52,651
Due to other government	476,016	476,016
Due to 375 Beale Condo	651,615	773,279
Total current liabilities	<u>4,932,820</u>	<u>4,092,827</u>
Non-current liabilities:		
Net pension liability	69,659	381,354
Net OPEB liability	119,233	181,305
Compensated absences liability	28,808	62,187
Tenants' security deposits	157,952	160,452
Total non-current liabilities	<u>375,652</u>	<u>785,298</u>
TOTAL LIABILITIES	<u>5,308,472</u>	<u>4,878,125</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pension	65,394	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>65,394</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	209,280,957	219,135,817
Restricted (expendable) for capital projects	4,780,457	3,627,118
Unrestricted	19,546,155	14,079,469
TOTAL NET POSITION	<u>\$ 233,607,569</u>	<u>\$ 236,842,404</u>

The accompanying notes are an integral part of the financial statements.

Bay Area Headquarters Authority
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING REVENUE		
Rental income	\$ 9,318,889	\$ 8,044,593
Assessment fees	152,000	-
Other operating revenues	499,544	484,542
TOTAL OPERATING REVENUE	9,970,433	8,529,135
OPERATING EXPENSES		
Salaries and benefits	411,866	1,226,051
Professional fees	590,653	1,403,185
Repairs and maintenance	989,511	988,124
Property management service	255,764	266,336
Property management commission	31,969	40,857
Insurance	179,794	179,855
Security	499,772	459,087
Cleaning service	650,551	618,436
Communication charges	-	32,951
Utilities	420,386	453,286
Computer maintenance and services	442,222	403,193
Supplies and equipment rental	31,554	184,419
Refund of excess assessment fees	-	901,385
Depreciation	6,638,385	6,433,075
Overhead	266,144	536,690
Possessory tax	599,002	1,346,538
Other	527,200	398,393
TOTAL OPERATING EXPENSES	12,534,773	15,871,861
OPERATING LOSS	(2,564,340)	(7,342,726)
NONOPERATING REVENUES AND EXPENSES		
Interest income	187,496	226,876
Other nonoperating revenues	131,311	152,326
Loss on sale of capital assets	(254,989)	-
Return of contribution to BATA	(3,900,000)	-
Miscellaneous income	266	532,630
TOTAL NONOPERATING REVENUES (EXPENSES)	(3,835,916)	911,832
LOSS BEFORE CAPITAL CONTRIBUTION / TRANSFERS	(6,400,256)	(6,430,894)
CAPITAL CONTRIBUTION / TRANSFERS		
Contribution from BAAQMD	3,150,000	-
Tenant contribution for tenant improvements	15,421	56,370
TOTAL CAPITAL CONTRIBUTION / TRANSFERS	3,165,421	56,370
CHANGE IN NET POSITION	(3,234,835)	(6,374,524)
Net position - Beginning of year	236,842,404	243,216,928 *
Net position - End of year	\$ 233,607,569	\$ 236,842,404

* In fiscal year 2018, beginning balance was restated due to the adoption of GASB statement No. 75.
See Note 6 for additional information.

The accompanying notes are an integral part of the financial statements.

Bay Area Headquarters Authority
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Cash receipts from tenants and others	\$ 10,642,092	\$ 11,459,887
Cash payments to suppliers	<u>(5,342,558)</u>	<u>(8,259,392)</u>
Net cash provided by operating activities	<u>5,299,534</u>	<u>3,200,495</u>
Cash flows from non-capital financing activities		
Return of contributions to BATA	<u>(3,900,000)</u>	<u>-</u>
Net cash (used in) non-capital financing activities	<u>(3,900,000)</u>	<u>-</u>
Cash flows from capital and related financing activities		
Tenant contributions for tenant improvements	(28,209)	100,000
Contribution from BAAQMD	150,000	-
Acquisition of capital assets	(1,635,902)	(8,992,697)
Sale of capital assets	<u>4,457,711</u>	<u>-</u>
Net cash provided by / (used in) capital and related financing activities	<u>2,943,600</u>	<u>(8,892,697)</u>
Cash flows from investing activities		
Proceeds from maturities of investments	-	-
Purchase of investments	-	-
Interest received	<u>187,472</u>	<u>230,920</u>
Net cash provided by investing activities	<u>187,472</u>	<u>230,920</u>
Net increase / (decrease) in cash	4,530,606	(5,461,282)
Balances - Beginning of year	<u>21,332,976</u>	<u>26,794,258</u>
Balances - End of year	<u>\$ 25,863,582</u>	<u>\$ 21,332,976</u>

The accompanying notes are an integral part of the financial statements.

Bay Area Headquarters Authority
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

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

	2019	2018
Operating loss	\$ (2,564,340)	\$ (7,342,726)
Adjustments to reconcile operating loss to net cash provided by/(used in) operating activities:		
Depreciation	6,638,385	6,433,075
Other revenues	148,425	860,235
Net effect of changes in:		
Accounts receivable	(7,672)	1,237,214
Prepaid expenses	177,520	132,027
Accounts payable	(75,523)	(247,279)
Accrued liabilities	373,130	1,177,610
Unearned revenue	587,176	(415,992)
Tenants' security deposits	290,625	-
Due from other governments	4,438	(4,438)
Deferred outflows from pension	240,403	66,808
Deferred outflows from OPEB	(16,673)	(112,705)
Net pension liability	(311,695)	(34,225)
Net OPEB liability	(62,072)	90,579
Compensated absences liability	(66,324)	120,783
Deferred inflows from pension	65,394	(9,766)
Due to MTC	-	476,016
Due to 375 Beale Condo	(121,664)	773,279
Net cash provided by / (used in) operating activities	\$ 5,299,534	\$ 3,200,495

Significant Noncash Investing, Capital, and Financing Activities

Building improvements included in accounts payable and accrued liabilities	\$ 393,677	\$ 566,037
Loss on sale of capital assets	(254,989)	-

The accompanying notes are an integral part of the financial statements.

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

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; and to receive gifts, contributions and donations of property, funds, services and other forms of assistance from persons, firms, corporation and any governmental entity. However, BAHA may not issue bonds or other forms of indebtedness. 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.

BAHA is a discretely presented component unit in the MTC financial statements because it does not qualify for blending under the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. As such, it is presented as a discretely presented component unit in 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

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

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). Subsequent to the initial two contributions for the purchase and renovation of the BAMC, BATA has contributed an additional \$39,548,523 to BAHA as of fiscal year 2016. BAHA returned \$29,700,000 contribution to BATA; \$10,400,000 in cash and \$19,300,000 in COP investments in fiscal year 2017. MTC contributed total of \$11,672,704 to BAHA as of fiscal year 2017. MTC Service Authority for Freeway & Expressways (SAFE) contributed \$50,000 in fiscal year 2015. In fiscal year 2019, BAHA returned \$3,900,000 contribution to BATA. BAHA received \$150,000 contribution from BAAQMD for constructions of electric vehicle charging stations in BAMC parking garage and \$3,000,000 for the improvements of the first-floor large retail space.

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 4 for further information in relation to leasing activities and management of BAMC.

On June 22, 2017, 375 Beale Condominium Corporation was incorporated under the Non-profit Mutual Benefit Corporation Law (California Corporations Code section 7110 *et seq.*) to provide for the management of the association of the three agency owners in BAMC. Cushman & Wakefield of California, Inc. (C&W) was contracted to provide the day-to-day property management services on behalf of the three condominium unit owners. BAHA, in its individual capacity, is solely responsible for the management and operation of the commercial space in BAMC.

2. Summary of Significant Accounting Policies

Basis of Presentation, Measurement Focus and Financial Statement 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. BAHA also follows standards of Governmental Accounting Standards Board (GASB) for its financial reporting.

New Accounting Pronouncements

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*. This standard establishes new accounting and financial reporting requirements for those governments whose employees are provided with other post employment benefits (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. BAHA adopted this standard for fiscal year ended June 30, 2018. For additional information on the impact of adoption of GASB Statement No. 75, see MTC's Comprehensive Annual Financial Report Note 9.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses requirements regarding the retirement of certain tangible assets for all state and local governments. The requirements of this

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

statement are effective for reporting periods beginning after June 15, 2018. This standard did not have any impact on BAHA's financial statements.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the effect of this standard on BAHA's financial statements.

GASB Statement No. 85, *Omnibus 2017*, addresses various practice issues including related blending component units, goodwill, fair value measurement and application, and other postemployment benefits (OPEB). The requirements of this statement are effective for reporting periods beginning after June 15, 2017. This standard did not have any impact on BAHA's financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. This standard did not have any impact on BAHA's financial statements.

GASB Statement No. 87, *Leases*, is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect of this standard on BAHA's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, provides additional essential information related to the debt disclosure in notes to financial statements. This statement clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. This standard did not have any impact on BAHA's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect of this standard on BAHA's financial statements.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance on how to improve reporting of Majority Equity Interests. This statement improves the consistency and comparability of reporting a government's majority equity interest in legally separate organizations and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the effect of this standard on BAHA's financial statements.

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

GASB Statement No. 91, *Conduit Debt Obligations*, provides single method of reporting conduit debt obligations. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. Management is currently evaluating the effect of this standard on BAHA's financial statements.

Cash

Cash

BAHA considers all balances in demand deposit accounts to be cash. The composition of cash at June 30, 2019 and 2018 is as follows:

	2019	2018
Unrestricted cash		
Cash at banks	\$ 21,083,125	\$ 17,705,858
Total unrestricted cash	<u>\$ 21,083,125</u>	<u>\$ 17,705,858</u>
Restricted cash		
Cash at banks	\$ 4,779,580	\$ 3,626,870
Money market mutual funds	877	248
Total restricted cash	<u>\$ 4,780,457</u>	<u>\$ 3,627,118</u>

Restricted Cash

Restricted cash is restricted for use on capital projects. BAHA's source of the restricted cash was contributions from BATA, which are restricted for capital purposes.

Accounts Receivable

BAHA's accounts receivable consists of the followings at June 30, 2019 and 2018:

	2019	2018
Accounts receivable		
Rent receivable due to straight line method	\$ 154,949	\$ 144,088
Other receivables	73,779	93,816
BAAQMD capital contribution	3,000,000	-
Total accounts receivable	<u>\$ 3,228,728</u>	<u>\$ 237,904</u>

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

Capital Assets

Capital assets, consisting of land, building and improvements, office furniture and equipment, as well as 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 the useful life of the asset are not capitalized.

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

	<u>Years</u>
Building and improvements	7-45
Furniture and equipment	3-25
Intangible assets	5-10

BAHA completed the BAMC renovation in fiscal year 2016. Depreciation of BAMC and the assets therein commenced upon BAMC being available for occupation in May 2016.

Deferred Outflows / Inflows from Pensions and Other Post-Employment Benefits (OPEB)

Deferred outflows of resources and deferred inflows of resources are recognized for:

- Changes in the total pension and OPEB liabilities arising from differences between expected and actual experience with regard to economic or demographic factors.*
- The effects of changes of assumptions about future economic or demographic factors or of other inputs.*
- Difference between projected and actual investment earnings on defined benefit pension and OPEB plan investments.**

*The balances on these accounts are recognized in pension and OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of employees determined as of the beginning of the measurement period.

**This amount is recognized in pension and OPEB expense using a systematic and rational method over a closed five-year period.

Net Pension and OPEB Liabilities

The liabilities employers have for the employee benefits provided through defined benefit pension and OPEB plans.

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

Rental Income

Rental income from lease transactions with scheduled rent increases is measured based on the terms of lease contracts. Rental income from lease transactions with rent abatements as an inducement to enter into the lease agreement is measured on a straight-line basis over the lease term.

Assessment Fees

BAHA recognized assessment fees as amounts were billed based on the agreement approved by the board among the condominium units. BAHA collected special assessment fees for a project in fiscal year 2019.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. 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.

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

3. Capital Assets

A summary of capital assets for the period ended June 30, 2019 is as follows:

	Beginning Balance June 30, 2018	Increases	Decreases	Ending Balance June 30, 2019
Capital assets, not being depreciated:				
Land	\$ 33,933,809	\$ -	\$ -	\$ 33,933,809
Furniture and equipment	-	107,715	-	107,715
Construction in progress	-	776,444	-	776,444
Total capital assets, not being depreciated	<u>33,933,809</u>	<u>884,159</u>	<u>-</u>	<u>34,817,968</u>
Capital assets, being depreciated:				
Building and improvements	178,154,518	141,647	(4,705,814)	173,590,351
Furniture and equipment	5,380,569	458,483	(341,380)	5,497,672
Tenant improvements	12,869,335	11,936	-	12,881,271
Intangible assets	<u>1,654,749</u>	<u>-</u>	<u>-</u>	<u>1,654,749</u>
Total capital assets being depreciated	<u>198,059,171</u>	<u>612,066</u>	<u>(5,047,194)</u>	<u>193,624,043</u>
Less accumulated depreciation for:				
Building and improvements	8,231,578	3,900,665	(251,994)	11,880,249
Furniture and equipment	1,233,879	717,161	(82,500)	1,868,540
Tenant improvements	2,714,768	1,685,310	-	4,400,078
Intangible assets	<u>676,938</u>	<u>335,249</u>	<u>-</u>	<u>1,012,187</u>
Total accumulated depreciation	<u>12,857,163</u>	<u>6,638,385</u>	<u>(334,494)</u>	<u>19,161,054</u>
Total capital assets, being depreciated, net	<u>185,202,008</u>	<u>(6,026,319)</u>	<u>(4,712,700)</u>	<u>174,462,989</u>
BAHA capital assets, net	<u>\$ 219,135,817</u>	<u>\$ (5,142,160)</u>	<u>\$ (4,712,700)</u>	<u>\$ 209,280,957</u>

In November 2018 BAHA sold BAMC's partial office space and furniture on the 8th floor to BAAQMD. The selling price was \$4,457,711, and the transaction resulted in a loss of \$254,989.

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

A summary of capital assets for the period ended June 30, 2018 is as follows:

	Beginning Balance June 30, 2017	Increases	Decreases	Ending Balance June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 33,933,809	\$ -	\$ -	\$ 33,933,809
Furniture and equipment	17,128	-	(17,128)	-
Construction in progress	542,857	506,370	(1,049,227)	-
Total capital assets, not being depreciated	<u>34,493,794</u>	<u>506,370</u>	<u>(1,066,355)</u>	<u>33,933,809</u>
Capital assets, being depreciated:				
Building and improvements	170,961,924	7,192,594	-	178,154,518
Furniture and equipment	4,217,983	1,162,586	-	5,380,569
Tenant improvements	12,352,511	516,824	-	12,869,335
Intangible assets	1,654,749	-	-	1,654,749
Total capital assets being depreciated	<u>189,187,167</u>	<u>8,872,004</u>	<u>-</u>	<u>198,059,171</u>
Less accumulated depreciation for:				
Building and improvements	4,364,507	3,867,071	-	8,231,578
Furniture and equipment	602,662	631,217	-	1,233,879
Tenant improvements	1,115,230	1,599,538	-	2,714,768
Intangible assets	341,689	335,249	-	676,938
Total accumulated depreciation	<u>6,424,088</u>	<u>6,433,075</u>	<u>-</u>	<u>12,857,163</u>
Total capital assets, being depreciated, net	<u>182,763,079</u>	<u>2,438,929</u>	<u>-</u>	<u>185,202,008</u>
BAHA capital assets, net	<u>\$ 217,256,873</u>	<u>\$ 2,945,299</u>	<u>\$ (1,066,355)</u>	<u>\$ 219,135,817</u>

4. Leases

Operating Leases

BAHA contracted Cushman & Wakefield of California, Inc. (C&W) as its sole agent and granted to C&W the exclusive right to lease rentable 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.

In October 2015, BAHA signed a lease agreement with BATA. This lease agreement authorized BATA to sublease an area at BAMC to Conduent Inc. (Conduent) 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. In April 2019, BAHA and BATA amended the agreement by extending the lease term to November 30, 2022.

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

In November 2015, BAHA signed a lease agreement with Degenkolb Engineers (Degenkolb). The lease term is 120 months with the commencement date on February 1, 2017.

In December 2015, BAHA signed a concession agreement with Ada's Café. Ada's Café provides food and beverage services at the ground floor retail space in BAMC. No rent is collected from Ada's Café. 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. BAHA and Twilio amended the agreement which allows Twilio to lease more space for a short term from October 2018 to June 2019.

In November 2017, BAHA signed a lease agreement with Cubic Transportation Systems, Inc. (Cubic). Cubic moved into BAMC in mid-April of 2018, and the first month was its rent abatement period. The lease term will end on December 31, 2022.

In April 2019, BAHA signed a lease agreement with the State of California for Bay Conservation and Development Commission (BCDC) to lease office space in BAMC. BCDC is expected to move into BAMC in September 2019, and the lease term will end on August 31, 2027.

The cost of the property on lease and held for leasing is \$90,096,177, the carrying value is \$80,332,987, and the accumulated depreciation amount is \$9,763,190 as of June 30, 2019.

Minimum future rental payments of the operating leases are as follows:

Year Ending June 30	Total
2020	9,445,677
2021	9,835,595
2022	10,047,974
2023	9,309,442
2024	8,148,565
After June 2024	9,332,227
Total	\$ 56,119,479

5. Retirement Plan

MTC, the primary government, provides a defined benefit pension plan, the Miscellaneous Plan of Metropolitan Transportation Commission (the "Plan") which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS).

MTC allocated BAHA's pension liability related balances based on BAHA's proportional share of total salaries.

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

In fiscal year 2019, BAHA has pension expense of \$49,373, net pension liability of \$69,659, deferred outflows of \$102,800, and deferred inflows of \$65,394.

For additional information on employees' retirement plan, see MTC's Comprehensive Annual Financial Report Note 8.

6. Other Post Employment Benefits (OPEB)

MTC, the primary government, provides post-employment medical coverage to all eligible retired employees and their eligible dependents. MTC established a Section 115 irrevocable benefit trust fund for its post-employment benefit plan with the Public Agency Retirement Services (PARS).

BAHA adopted 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* in fiscal year 2018. MTC reported the contributions made subsequent to the measurement date of the beginning net OPEB liability as the beginning deferred outflow as MTC considered it is not practical to determine the amounts of all other applicable deferred inflows of resources and deferred outflows of resources related to OPEB. MTC reported the prior periods cumulative effect of applying GASB 75 as a restatement of the beginning balance for the period in which GASB 75 is first applied. Prior to the adoption of GASB 75, MTC reported a cumulative OPEB asset amount over the actuarially required contributions, consistent with prior accounting standard. Under GASB 75, MTC has a liability which is required to be recognized and reported as an obligation in the financial statements.

MTC allocated the OPEB liability related balances to BAHA based on BAHA's proportional share of total salaries.

In fiscal year 2019, BAHA has OPEB expense of \$32,694, net OPEB liability of \$119,233, and deferred outflows of \$129,378.

For additional information on employees' OPEB plan, see MTC's Comprehensive Annual Financial Report Note 9.

7. Compensated Absences

MTC's regular staff employees accumulate vacation pay and sick leave pay based on the agreement with the Committee for Staff Representation pursuant to the Meyers-Milias-Brown Act. A liability exists for accumulated vacation and sick leave. Unused accumulated sick and vacation leave is paid at the time of employment termination up to a maximum of 240 hours for sick leave as well as the total accumulated vacation leave up to a maximum of 500 hours per employee.

MTC allocated the compensated absences liability related balance to BAHA based on BAHA's proportional share of total salaries. In fiscal year 2019, BAHA has compensated absences liability of

Bay Area Headquarters Authority
Notes to the Financial Statements
As of and for the Years Ended June 30, 2019 and 2018

\$25,651 for short term and \$28,808 for long term. For additional information on compensated absences, refer to MTC's Comprehensive Annual Financial Report Note 10.

8. Commitment and Contingencies

BAHA entered into contracts with multiple external parties to perform the building and tenant improvements construction and working space furnishings. As of June 30, 2019, there are approximately \$4,675,000 in future capital expenditure commitments.

9. Related Party Transactions

On June 22, 2017, 375 Beale Condominium Corporation ("375 Beale Condo") was incorporated in the State of California. The 375 Beale Condo started to exercise its custodial responsibility on behalf of the three owner occupants, BAHA, BAAQMD, and ABAG on July 1, 2017. The 375 Beale Condo assessed and billed both facility common and agency common assessment fees to meet all required expenditures of the common area and joint used space. Cushman and Wakefield of California, Inc. (C&W) was contracted to provide day-to-day property management services on behalf of the three condominium unit owners.

10. Subsequent Events

BAHA and Ada's Café agreed to terminate the concession agreement, and Ada's Café ceased its services and moved out of BAMC in August 2019. BCDC moved into BAMC in mid-August 2019.