# Bay Area Infrastructure Financing Authority

**Financial Statements**
**As of and for the Years Ended June 30, 2014 and 2013**

## Bay Area Infrastructure Financing Authority
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**As of and for the Years Ended June 30, 2014 and 2013**

## Independent Auditor's Report

To the Governing Board of the
Bay Area Infrastructure Financing Authority:

We have audited the accompanying statements of net position and the related statements of revenues, expenses and changes in net position and cash flows of the Bay Area Infrastructure Financing Authority (BAIFA), a discretely presented component unit of the Metropolitan Transportation Commission, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise BAIFA's basic financial statements.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's 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 BAIFA'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 BAIFA'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 BAIFA at June 30, 2014 and 2013, 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.

*PricewaterhouseCoopers LLP, Three Embarcadero Center, San Francisco, CA 94111*
*T: (415) 498 5000, F: (415) 498 7100,* www.pwc.com/us

***Other Matter***

The accompanying management's discussion and analysis 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

November 12, 2014

## Management's Discussion and Analysis

This financial report is designed to provide a general overview of the Bay Area Infrastructure Financing Authority's (BAIFA) proprietary fund, a discretely presented component unit of Metropolitan Transportation Commission (MTC). This Management's Discussion and Analysis presents an overview of the financial activities of BAIFA for the years ended June 30, 2014 and 2013. The discussion has been prepared by management and should be read in conjunction with the financial statements and the notes which follow this section.

BAIFA was created on August 1, 2006 by a Joint Exercise of Powers Agreement between MTC and the Bay Area Toll Authority (BATA). BAIFA is authorized to plan projects and obtain funding in the form of grants, contributions, appropriations, loans and other assistance from the United States government and from the State of California (the State) and to apply funds received to pay debt service on notes issued by BAIFA to finance or refinance public transportation and related capital improvements projects.

The governing board of BAIFA is comprised of six members: the chairs of MTC and BATA Oversight Committees, three members of MTC appointed by the board of supervisors of Alameda County, Contra Costa County, and Solano County, and, as a nonvoting member, the representative appointed to MTC by the secretary of the Business, Transportation and Housing Agency. BATA provides administrative services, including accounting and management, at no charge to BAIFA.

### A. Financial Highlights

BATA and the State entered into a Funds Transfer Cooperative Agreement on August 1, 2006. The purpose of this agreement was to establish the terms and conditions for the State to transfer its contribution to BATA for the seismic retrofit and replacement projects. The schedule of payments per the Funds Transfer Cooperative Agreement lists the payments due from the State for fiscal years 2007 through 2014.

BAIFA and BATA entered into a contribution agreement on December 1, 2006 whereby BATA has assigned to BAIFA all of BATA's rights to the payments due from the State. As the State makes the annual payments, BATA has irrevocably assigned this revenue to BAIFA, which in turn has assigned the funds to a trustee under an indenture of trust.

BAIFA then issued $972,320,000 in State Payment Acceleration Notes (SPANs) in December 2006. These SPANs are secured solely by the future scheduled payments from the State to BATA pursuant to the Funds Transfer Cooperative Agreement and further assigned to BAIFA and the trustee. In fiscal year 2007, BATA also contributed $15,000,000 to BAIFA as additional security for the SPANs. Neither MTC nor BATA is responsible for BAIFA's debt or obligations.

The proceeds from the SPANs are restricted for the reimbursement of BATA's costs for the seismic retrofit and replacement projects and are reimbursed as the costs are incurred. All of the proceeds from the SPANs in the project fund account to reimburse BATA for the costs of seismic retrofit and replacement projects were exhausted in fiscal year 2008.

In October 2013, BAIFA received the final payment of $300,000,000 pledged revenues from BATA, bringing total payments received from BATA to $1,135,000,000. In fiscal year 2014, BAIFA extinguished the remaining balance of $972,320,000 SPANs, issued in December 2006, three years early. As a result, BAIFA transferred its remaining cash balance of $81,209,051 to BATA.

## B. Overview of the BAIFA Financial Statements

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

The *Statement of Net Position* reports assets and liabilities and the difference as net position. The *Statement of Revenues, Expenses, and Changes in Net Position* consists of operating revenues and expenses and nonoperating revenues and expenses. The *Statement of Cash Flows* is presented using the direct method.

The *Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position,* and *Statement of Cash Flows* are presented on pages 7-10 of this report.

## C. Financial Analysis

*Statement of Net Position*

The following table is a summary of BAIFA's statement of net position as of the last three fiscal years:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Cash and investments | $ - | $ 127,829,741 | $ 201,182,328 |
| Receivables | - | 3,710 | 24,982 |
| Other assets | - | 990,984 | 1,233,674 |
| Receivable due from BATA | - | 78,070,212 | 243,076,962 |
| Total assets | - | 206,894,647 | 445,517,946 |
| Interest payable | - | 6,769,792 | 11,258,333 |
| Debt payable, net | - | 347,895,661 | 568,445,707 |
| Total liabilities | - | 354,665,453 | 579,704,040 |
| Net position | | | |
| Unrestricted | - | (147,770,806) | (134,186,094) |
| Total net position | $ - | $ (147,770,806) | $ (134,186,094) |

Cash and investments decreased by $127,829,741 in fiscal year 2014 and $73,352,587 in fiscal year 2013. The decrease in cash for fiscal year 2014 is due to an optional bond redemption, extinguishment of the remaining SPANs, and the balance was returned as a contribution to BATA. The cash decrease in fiscal year 2013 is mainly due to early bond redemption payments.

The receivable due from BATA decreased by $78,070,212 and $165,006,750 in fiscal years 2014 and 2013 respectively. The decrease in both fiscal years is due to pledged revenue received from BATA.

The debt payable decreased by $347,895,661 in fiscal year 2014 and $220,550,046 in fiscal year 2013. The decrease in fiscal year 2014 is due to the optional bond redemption of $84,550,000, debt extinguishment of $240,720,000, and remaining bond premium amortization of $22,625,661. The decrease in fiscal year 2013 is due to early bond redemptions of $215,450,000 and bond premium amortization of $5,100,046.

*Statement of Revenues, Expenses, and Net Position*

The following table is the summary of BAIFA's statement of revenues, expenses and net position for the last three years:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Operating revenues | | | |
| Investment income | $ 20,582 | $ 166,109 | $ 418,887 |
| Miscellaneous income | - | 9,723 | - |
| Total operating revenues | 20,582 | 175,832 | 418,887 |
| Operating expenses | | | |
| Interest expense | 446,444 | 13,456,829 | 23,236,051 |
| Other expenses | 118,371 | 303,715 | 300,723 |
| Total operating expenses | 564,815 | 13,760,544 | 23,536,774 |
| Nonoperating revenues (expenses) | | | |
| Revenues from BATA | 221,909,538 | - | - |
| Contribution to BATA | (81,209,051) | - | - |
| Gain on extinguishment of debt | 7,614,552 | - | - |
| Total nonoperating revenues | 148,315,039 | - | - |
| Change in net position | 147,770,806 | (13,584,712) | (23,117,887) |
| Net position - beginning | (147,770,806) | (134,186,094) | (111,068,207) |
| Net position - ending | $ - | $ (147,770,806) | $ (134,186,094) |

BAIFA's operating revenues decreased by $155,250 in fiscal year 2014 and $243,055 in fiscal year 2013. The decrease in both fiscal years is the result of lower interest income from smaller investment balances.

Total interest expense decreased by $13,010,385 and $9,779,222 in fiscal years 2014 and 2013 respectively. The decrease in both fiscal years is due to interest expense on lower outstanding debt.

BAIFA recorded $148,315,039 nonoperating revenues in fiscal year 2014. It consists of the following items: revenue from BATA of $221,909,538, which is the net of $300,000,000 final payment from BATA less the $78,070,212 receivable that was due from BATA at June 30, 2013; and the gain on the debt extinguishment of $7,614,552. The two items are offset by a contribution to BATA of $81,209,051 from the remaining cash balance after the optional bond redemption and the extinguishment of the SPANs.

### 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 as well as the financial statements.

### E. Economic Factors

The Bay Area economy is recovering. Unemployment and the number of home foreclosures have decreased from the prior year and sales taxes have increased. General factors include:

- Sales tax revenues increased for the fourth straight fiscal year by 5.1 percent and 6.3 percent for fiscal years 2014 and 2013 respectively. Sales tax revenues for fiscal year 2015 are projected to be slightly higher than fiscal year 2014.
- Unemployment in the Bay Area has decreased from last fiscal year and is at 5.3 percent as of June 2014.
- Building construction and permitting activity is up and demand for consumer goods is up.

### Requests for information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer and Auditor, Bay Area Infrastructure Financing Authority, 101 8th Street, Oakland, CA 94607.

# Bay Area Infrastructure Financing Authority
## Statement of Net Position
## June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash - restricted | $ - | $ 8,314,305 |
| Short term investments - restricted | - | 26,295,069 |
| Interest receivable - restricted | - | 3,710 |
| Due from BATA - restricted | - | 78,070,212 |
| Total current assets | - | 112,683,296 |
| Non-current assets: | | |
| Cash - restricted | - | 100,905 |
| Short term investments - restricted | - | 93,119,462 |
| Bond prepaid insurance | - | 990,984 |
| Total non-current assets | - | 94,211,351 |
| Total assets | - | 206,894,647 |
| **Liabilities** | | |
| Current liabilities: | | |
| Interest payable | - | 6,769,792 |
| Total current liabilities | - | 6,769,792 |
| Non-current liabilities: | | |
| Long-term debt, net | - | 347,895,661 |
| Total liabilities | - | 354,665,453 |
| **Net Position** | | |
| Unrestricted | - | (147,770,806) |
| Total net position | $ - | $ (147,770,806) |

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

# Bay Area Infrastructure Financing Authority
## Statement of Revenues, Expenses, and Changes in Net Position
## For the Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Operating Revenues** | | |
| Investment income | $ 20,582 | $ 166,109 |
| Miscellaneous income | - | 9,723 |
| Total operating revenues | 20,582 | 175,832 |
| **Operating Expenses** | | |
| Interest expense | 446,444 | 13,456,829 |
| Amortization of bond prepaid insurance | 101,121 | 242,690 |
| Administrative fees | 17,250 | 61,025 |
| Total operating expenses | 564,815 | 13,760,544 |
| Operating loss | (544,233) | (13,584,712) |
| **Nonoperating Revenues (Expenses)** | | |
| Revenues from BATA | 221,909,538 | - |
| Contribution to BATA | (81,209,051) | - |
| Gain on extinguishment of debt | 7,614,552 | - |
| Total nonoperating revenues | 148,315,039 | - |
| **Change in Net Position** | 147,770,806 | (13,584,712) |
| **Net Position - Beginning of year** | (147,770,806) | (134,186,094) |
| **Net Position - Ending of year** | $ - | $ (147,770,806) |

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

# Bay Area Infrastructure Financing Authority
## Statement of Cash Flows
## For the Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash receipts from investment income and other | $ 24,292 | $ 199,065 |
| Cash payments for interest expense and other | (9,436,398) | (23,099,691) |
| **Net cash used in operating activities** | (9,412,106) | (22,900,626) |
| **Cash flows from non-capital financing activities** | | |
| Bond principal payments | (84,550,000) | (215,450,000) |
| Pledged seismic retrofit payments from BATA | 78,090,462 | 165,000,000 |
| Revenues from BATA | 221,909,538 | - |
| Contribution to BATA | (81,209,051) | - |
| Early debt extinguishment | (252,658,584) | - |
| **Net cash used in non-capital financing activities** | (118,417,635) | (50,450,000) |
| **Cash flows from investing activities** | | |
| Proceeds from maturities of investments | 174,713,584 | 254,339,886 |
| Purchase of investments | (55,299,053) | (309,276,932) |
| **Net cash provided by/(used in) investing activities** | 119,414,531 | (54,937,046) |
| **Net decrease in cash** | (8,415,210) | (128,287,672) |
| **Balances - Beginning of year** | 8,415,210 | 136,702,882 |
| **Balances - End of year** | $ - | $ 8,415,210 |

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

# Bay Area Infrastructure Financing Authority
## Statement of Cash Flows
## For the Years Ended June 30, 2014 and 2013

| **Reconciliation of operating income to net cash provided by/(used in) operating activities** | **2014** | **2013** |
|---|---|---|
| Operating income (loss) | $ (544,233) | $ (13,584,712) |
| Adjustments to reconcile operating loss to net cash provided by/(used in) operating activities: | | |
| Amortization of bonds premium | (2,182,662) | (5,100,046) |
| Amortization of prepaid insurance | 101,121 | 242,690 |
| Net effect of changes in: | | |
| Bonds interest payable | (6,769,792) | (4,488,541) |
| Interest receivable | 3,710 | 23,233 |
| Due to BATA | (20,250) | 6,750 |
| **Net cash used in operating activities** | $ (9,412,106) | $ (22,900,626) |

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

## 1. Reporting Entity

The Bay Area Infrastructure Financing Authority (BAIFA) was established on August 1, 2006 pursuant to the California Joint Exercise of Powers Act (Act) consisting of Sections 6500 through 6599.2 of the California Government Code. The Act provides for the joint exercise of powers common to Metropolitan Transportation Commission (MTC) and the Bay Area Toll Authority (BATA). BAIFA is authorized to plan projects and obtain funding in the form of grants, contributions, appropriations, loans and other assistance from the United States government and from the State of California (the State) and apply funds received to pay debt service on notes issued by BAIFA to finance or refinance public transportation and related capital improvements projects. BAIFA's governing body consists of six members: the chairs of MTC and BATA Oversight Committees, three members of MTC appointed by the board of supervisors of Alameda County, Contra Costa County, and Solano County, and, as a nonvoting member, the representative appointed to MTC by the secretary of the Business, Transportation and Housing Agency. Neither MTC nor BATA have any obligations for BAIFA's debt, liabilities or other obligations.

MTC was established under Government Code Section 66500 et seq. of the laws of the State in 1970 to provide comprehensive regional transportation planning for the nine counties that comprise the San Francisco Bay Area. The nine counties are 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 to set tolls, issue debt, and administer the operations, maintenance, repair and construction of the seven State owned toll bridges. BATA is a blended component unit of MTC because the MTC and BATA governing boards are substantially the same.

BAIFA 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 proprietary fund in the component unit column of the government-wide financial statements of MTC.

In December 2006 BAIFA issued $972,320,000 in State Payment Acceleration Notes (SPANs) collateralized solely by BATA's pledge and assignment of future State revenues. BATA and BAIFA have entered into an agreement whereby BATA has pledged and irrevocably assigned its rights to future scheduled payments from the State for the seismic retrofit or replacement expenses of State-owned toll bridges. BAIFA has used these payments for paying debt service and BAIFA's administration costs. The State's scheduled payments for the seismic retrofit and replacement cost are predetermined by State legislation. These payments are reported as current restricted assets.

These standalone financial statements are for the benefit of the users of BAIFA's financial statements who require additional disclosure of information and more segregated financial information for this entity.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

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

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

BAIFA follows GASB Statement No. 34, *Basic Financial Statements – Management's Discussion & Analysis – for State and Local Governments* as amended.

### New Accounting Standards

GASB Statement No. 67, *Accounting and Financial Reporting for Pension Plans*, an amendment to GASB Statement No. 25 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. This statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position and a statement of changes in fiduciary net position. It enhances note disclosures and Required Supplementary Information (RSI) for both defined benefit and defined contribution pension plans and also requires the presentation of new information about annual money-weighted rates of return in the notes and in ten year RSI schedules. This standard was issued in June 2012 and is effective for periods beginning after June 15, 2013. This standard did not have any impact on BAIFA's financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment to GASB Statement No. 27 requires governments providing pensions through pension plans administered as trusts or similar arrangements that meet certain criteria and requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This standard was issued in June 2012 and is effective for periods beginning after June 15, 2014. This standard is not expected to have any impact on BAIFA's financial statements.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. This standard was issued in January 2013 and is effective for government operations occurring in financial reporting periods beginning after December 15, 2013. This standard is not expected to have any impact on BAIFA's financial statements.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexhange Financial Guarantees*, requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. It also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This standard was issued in April 2013 and is effective for reporting periods beginning after June 15, 2013. This standard did not have any impact on BAIFA's financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68. This standard was issued in November 2013 and is effective for reporting periods beginning after June 15, 2014. This standard is not expected to have any impact on BAIFA's financial statements.

**Cash and Investments**

BAIFA considers all balances in demand deposit accounts to be cash. BAIFA classifies all other highly liquid cash equivalents as short-term investments.

BAIFA invests its available cash under the prudent investor rule. The prudent investor rule states, in essence, that "in investing … property for the benefit of another, a trustee shall exercise the judgment and care, under the circumstance then prevailing, which people of prudence, discretion, and intelligence exercise in the management of their own affairs". This policy affords BAIFA a broad spectrum of investment opportunities as long as the investment is deemed prudent and is authorized under the California Government Code Sections 53600, et seq. Investments may be made within the guidelines of Permitted Investments as defined in the Indenture of Trust between BAIFA and US Bank as Trustee. Investments include the following:

- Securities of the U.S. Government or its agencies
- Securities of the State of California or its agencies
- Certificates of deposit issued by a national or state chartered bank
- Authorized pooled investment programs
- Commercial paper – Rated "A1 or P1"
- Municipal bonds
- Mutual funds – Rated "AAA"/ "Aaa"

**Restricted Cash and Investments**

Cash and investments are restricted as these assets are used for a specific purpose. BAIFA's cash and investments are restricted for debt service. In November 2013, after all the debt was paid off, BAIFA transferred its remaining cash to BATA.

**Non-current Cash and Investments**

At June 30, 2013 certain cash and investments were non-current as these funds were not to be used for current operations within the next fiscal year.

### Interest Receivable

Interest receivable consists of accrued interest income plus the amortized value of Variable Rate Demand Obligations (VRDOs) and accrued interest on investments that have a remaining maturity at the time of purchase of one year or less. The amortized value of the VRDOs and investments included in the interest receivable as of June 30, 2014 and 2013 is zero and $2,488 respectively.

### Net Position

Net position represents the residual interest in liabilities after assets are deducted. The unrestricted net position is zero at June 30, 2014 and negative $147,770,806 at June 30, 2013. The balances of the net position are the result of the transactions between BAIFA and BATA. BAIFA had been accumulating a negative net position over the years until it received the last payment of $300,000,000 pledged revenue from BATA in October 2013.

### Use of Estimates

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

## 3. Deposit and Investment Risk Factors

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

### i.) Credit Risk

Fixed income securities are subject to credit risk, which is the possibility that the security issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by at least one nationally recognized independent credit-rating agency, for example Moody's Investor Services or Standard & Poor's. The lower the rating is, the greater the chance (in the opinion of Moody's or Standard & Poor's) that the bond issuer will default, or fail to meet its obligations. See information about credit quality ratings of debt securities under "Concentration of Credit Risk" below.

### ii.) Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be recovered. All securities are held in an independent trust account maintained with US Bank and held in the name of BAIFA. As a result, BAIFA believes custodial credit risk is remote.

### iii) Concentration of Credit Risk

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

The S&P rating for the investments that represent five percent or more of total cash and investments held are as follows:

| | 2014 | 2013 |
|---|---|---|
| Metropolitan Water District of Southern California | - | AAA |
| Goldman Sachs Financial Square Fund Institutional Shares | - | AAA |
| Federal Home Loan Mortgage Corporation | - | AA+ |
| Federal Home Loan Bank | - | AA+ |

The weighted average to maturity of each of BAIFA's securities expressed in days at June 30, 2014 and 2013 is as follows:

| | 2014 | 2013 |
|---|---|---|
| Metropolitan Water District of Southern California | - | 7* |
| Sacramento California Suburban Water District | - | 7* |
| Eastern Municipal Water District California | - | 7* |
| Los Angeles California Department of Water & Power | - | 7* |
| Sunnyvale California Solid Waste | - | 93 |
| Federal Home Loan Mortgage Corporation | - | 221 |
| Federal Home Bank | - | 619 |

*The maturity dates are not final maturity dates. Variable rate demand bonds have a seven day put.

Investments in issuers that represent five percent or more of total cash and investments at June 30, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Metropolitan Water District of Southern California | - | 12% |
| Goldman Sachs Financial Square Fund Institutional Shares | - | 68% |
| Federal Home Loan Mortgage Corporation | - | 12% |

## 4. Due From Bay Area Toll Authority

In December 2006, BATA entered into an agreement (the contribution agreement) with BAIFA under which BAIFA would advance proceeds from the issuance of SPAN notes to BATA to allow BATA to complete certain seismic retrofit projects. BATA has repaid this advance to BAIFA through its pledge and assignment of future scheduled payments of $1,135,000,000 from the State. The $1,135,000,000 represents a part of the State's share of the seismic retrofit and replacement program. BAIFA received the last payment of $300,000,000 in October 2013. The $1,135,000,000 scheduled pledged revenues from the State has been fully paid to date, and the receivable from BATA has been reduced to zero. The pledged revenues received from the State were used for debt service payments.

## 5. Long Term Debt

In December 2006, BAIFA issued $972,320,000 in State Payment Acceleration Notes (SPANs) to (1) provide funds for seismic retrofit and replacement projects, and (2) pay costs incurred in connection with the issuance of the SPANs. The SPANs bore interest rates ranging from 4.0% to 5.0% with the final maturity date of August 1, 2017. In November 2013, BAIFA exercised its last early bond redemption option of $84,550,000. As a result, BAIFA had a remaining balance of $240,720,000 for the SPANs.

On November 20, 2013, BAIFA extinguished its remaining $240,720,000 SPANs and deposited the required funds of $252,601,084 into an irrevocable escrow account at the US Bank. The funds were used to purchase the State and Local Government Securities (SLGS). The SLGS along with the interest earned from the securities will be used to pay the principal and interest of the SPANs on their maturity dates. This transaction resulted in a net present value savings for BAIFA in future interest payments of $35,581,152.

There was a $7,614,552 gain on extinguishment of the SPANs, which was recorded in nonoperating revenues.

## 5. Long Term Debt, *continued*

A summary of the long-term debt for the year ended June 30, 2014 is as follows:

| | Issue Date | Interest Rate | Calendar Maturity Year | Original Amount | Beginning Balance July 1, 2013 | Additions | Reductions | Ending Balance June 30, 2014 | Due Within One Year |
|---|---|---|---|---|---|---|---|---|---|
| 2006 State Payment Acceleration Notes | 12/14/2006 | 5.00% (1) | 2017 | $ 972,320,000 | $ 325,270,000 | $ - | $ (325,270,000) (2) | $ - | $ - |
| Unamortized bond premium | | | | | 22,625,661 | - | (22,625,661) | - | |
| Net long-term debt | | | | | $ 347,895,661 | $ - | $ (347,895,661) | $ - | |

(1) 2006 Bay Area Infrastructure Financing Authority SPANs were issued as fixed rate bonds with a final maturity of 2017. The bonds carry interest rates ranging from 4.0% in 2007 to 5.0% in 2017, or a weighted outstanding coupon rate of 5.0%.

(2) Optional redemption payment of $84.550 million and bond extinguishment of $240.720 million in November 2013.

A summary of the long-term debt for the year ended June 30, 2013 is as follows:

| | Issue Date | Interest Rate | Calendar Maturity Year | Original Amount | Beginning Balance July 1, 2012 | Additions | Reductions | Ending Balance June 30, 2013 | Due Within One Year |
|---|---|---|---|---|---|---|---|---|---|
| 2006 State Payment Acceleration Notes | 12/14/2006 | 5.00% (1) | 2017 | $ 972,320,000 | $ 540,720,000 | $ - | $ (215,450,000) (2) | $ 325,270,000 | $ - |
| Unamortized bond premium | | | | | 27,725,707 | - | (5,100,046) | 22,625,661 | |
| Net long-term debt | | | | | $ 568,445,707 | $ - | $ (220,550,046) | $ 347,895,661 | |

(1) 2006 Bay Area Infrastructure Financing Authority SPANs were issued as fixed rate bonds with a final maturity of 2017. The bonds carry interest rates ranging from 4.0% in 2007 to 5.0% in 2017, or a weighted outstanding coupon rate of 5.0%.
(2) Optional redemption payment of $215.450 million.