SAN FRANCISCO BAY AREA
RAPID TRANSIT DISTRICT

Annual Financial Report

For the Years Ended June 30, 2013 and 2012

MGO Certified Public Accountants.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
ANNUAL FINANCIAL REPORT
For the Years Ended June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the San Francisco
Bay Area Rapid Transit District
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the San Francisco Bay Area Rapid Transit District (the District) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District'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 opinions on these financial statements based on our audits. We conducted our audits 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 opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the District as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2011, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress identified in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Oakland, California
December 31, 2013

Introduction

The following discussion and analysis of the financial performance and activity of the San Francisco Bay Area Rapid Transit District (the District) provide an introduction and understanding of the basic financial statements of the District for the years ended June 30, 2013 and 2012. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The District is an independent agency created in 1957 by the legislature of the State of California for the purpose of providing an adequate, modern, interurban mass rapid transit system in the various portions of the metropolitan area surrounding the San Francisco Bay. The District started its revenue operations in September 1972. It presently owns a 104-mile, 44-station system serving the four counties of Alameda, Contra Costa, San Francisco and San Mateo. The government of the District is vested in a Board of Directors composed of nine members, each representing an election district within the District.

The Financial Statements

The basic financial statements provide information about the District's Enterprise Fund and the Retiree Health Benefit Trust. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Enterprise Fund Financial Statements

The *Statement of Net Position* reports assets, deferred outflows of resources, liabilities, deferred inflows of resources and the difference as *net position*. The entire equity section is combined to report total *net position* and is displayed in three components - *net investment in capital assets; restricted net position; and unrestricted net position*.

The net position component *net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings attributable to the acquisition, construction or improvements of those assets.

Restricted net position consist of assets where constraints on their use are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consist of net position that does not meet the definition of restricted or net investment in capital assets. This net position component includes net position that has been designated by management for specific purposes, which in the case of the District include allocations to fund capital projects, and other liabilities, which indicate that management does not consider them to be available for general operations.

The *Statement of Revenues, Expenses and Changes in Net Position* consists of operating and nonoperating revenues and expenses based upon definitions provided by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments: Omnibus.* Accordingly, significant recurring sources of the District's revenues, such as capital contributions, are reported separately, after nonoperating revenues and expenses.

Statement of Cash Flows is presented using the direct method and includes a reconciliation of operating loss to net cash used in operating activities.

Financial Highlights

Statements of Revenues, Expenses and Changes in Net Position
A summary of the District's *Statements of Revenues, Expenses and Changes in Net Position* for fiscal years 2013, 2012 and 2011 is as follows (dollar amounts in thousands):

	2013	2012	2011
Operating revenues	$ 443,274	$ 401,855	$ 376,744
Operating expenses, net	(712,485)	(667,628)	(630,226)
Operating loss	(269,211)	(265,773)	(253,482)
Nonoperating revenues, net	245,844	237,875	222,777
Capital contributions	419,852	355,462	331,912
Special item: loss on termination of capital project	-	-	(53,194)
Change in net position	396,485	327,564	248,013
Net position, beginning of year	5,390,042	5,062,478	4,814,465
Net position, end of year	$ 5,786,527	$ 5,390,042	$ 5,062,478

Operating Revenues
In fiscal year 2013, operating revenues increased by $41,419,000 primarily due to (1) an increase of $39,582,000 in passenger fares, which is attributable to a 6.81% increase in average weekly ridership from 367,000 in fiscal year 2012 to 392,000 in fiscal year 2013; (2) an increase of $907,000 in parking revenue coming from an increase in nonreserved and long-term parking fees which was an offshoot of the previously noted general increase in ridership; and (3) an increase in advertising revenue of $662,000 due to increase in the minimum annual guaranteed advertising revenue.

In fiscal year 2012, operating revenues increased by $25,111,000, which is primarily due to (1) an increase of $23,785,000 in passenger fares largely due to a 6.38% increase in average weekly ridership from 345,000 in fiscal year 2011 to 367,000 in fiscal year 2012; and (2) an increase of $1,269,000 in parking revenues mainly coming from the nonreserved daily parking users.

Operating Expenses, Net

In fiscal year 2013, operating expenses, net, increased by $44,857,000, which is primarily due to (1) an increase of $12,865,000 in employees' salaries and benefits largely from an additional 57 positions hired during fiscal year 2013 ($2,253,000) to address targeted priority areas such as front line service and compliance areas, an increase in overtime pay ($4,256,000) for operational needs, a slight increase in PERS contribution ($853,000) due to new hires and an increase in contribution rate for the safety group from 38.001% in fiscal year 2012 to 41.566% in fiscal year 2013, an increase in annual lump-sum payment to employees ($1,005,000) per contractual agreement, and a 10% increase in medical health insurance premiums ($4,498,000); (2) an increase of $6,778,000 in actuarially determined self-insurance reserves due to anticipated increases in claims for both workers compensation and general liability; (3) an increase of $1,963,000 in other post-employment benefit expenses due to a higher annual required contribution rate from 12.45% in fiscal year 2012 to 13.02% in fiscal year 2013; (4) a net increase in materials and services of $4,200,000 and traction power of $2,243,000 associated with maintaining the rail fleet as ridership continues to increase; (5) an increase in depreciation expense of $7,464,000 as capital projects have been completed and placed into use; and (6) an increase in clipper and interchange fees of $2,305,000 due to continuing increase in the usage of the clipper card and credit card transactions used to purchased tickets at the stations

In fiscal year 2012, operating expenses, net, increased by $37,402,000, which is primarily due to (1) an increase of $14,536,000 in employees' salaries and benefits coming from overtime pay for increased operational needs ($4,241,000), increase in medical health insurance expense primarily due to increase of about 9% in medical insurance premiums ($4,085,000) and PERS contributions due to increases in employer contribution rates ($6,210,000); (2) an increase of $6,910,000 in self-insurance reserves, mostly for workers' compensation due to increase in claim frequency as well as increase in the number of claims over $100,000; (3) an increase of $4,768,000 in services and materials used to keep the system in a good state of repairs; (4) an increase in Clipper fees of $3,722,000 due to the continuing increase among the rail passengers on the use of Clipper tickets; and (5) an increase of $5,913,000 in professional and technical fees most of which were related to the post-implementation services needed for the new financial reporting system.

Nonoperating Revenues, Net

In fiscal year 2013, nonoperating revenues, net, increased by $7,969,000 principally from (1) sales tax revenue which grew by $13,347,000 due to a more vibrant economy in the San Francisco Bay Area; (2) an increase in property tax revenue of $1,992,000 attributable to the rising property values within the District boundaries and $1,315,000 increase in earmarked property tax revenue for the payment of the General Obligation Bonds; (3) a decrease in interest expense of $5,143,000 primarily from an increase in capitalized interest; offset by (4) a decrease in investment income of $8,695,000 due to a combination of lesser funds available for investment and the decrease in the carrying value of investments; (5) a decrease of $1,013,000 in State Transit Assistance received in fiscal year 2013; and (6) a loss of $4,675,000 from early termination of the lease/leaseback obligation with Wells Fargo Bank and CIBC Capital Corporation on June 26, 2013.

Nonoperating revenues, net, increased by $15,098,000 in fiscal year 2012, which is largely due to (1) an increase in the sales tax revenues of $14,395,000 due to the improving economy in the Bay Area; (2) an increase of $3,765,000 in property tax revenues earmarked for the payment of the General Obligation Bonds, which equals the increase in the scheduled 2012 bond debt service payment; and offset by (3) a net decrease comprised of an increase of $21,760,000 in operating financial assistance offset by a $25,940,000 contribution for the BART car replacement funding program, which results in a net decrease of $4,180,000 primarily related to debt service contributions from the local District funding partners on the Dublin/Pleasanton Extension project.

Capital Contributions

The revenues from capital contributions relate to grants and other financial assistance received by the District from federal, state and local agencies to fund capital projects. The District receives mostly reimbursement-type grants of which the District has to first incur eligible costs under the provider's program before qualifying for the grant resources. Revenues from capital contributions are recognized at the time when the eligible project costs are incurred. In fiscal year 2013, the revenues from capital contributions increased by $64,390,000 mostly from local funds received from the Metropolitan Transportation Commission (MTC) to fund the rail car replacement project ($15,500,000) and the Oakland Airport Connector Project ($31,000,000). The remaining increase of $17,890,000 came from the Proposition 1B funds provided by the State of California for the EBART project and the Warm Springs Extension.

In fiscal year 2012, the revenues from capital contributions increased by $23,550,000 most of it coming from an increase of $23,044,000 in local funding received from the Alameda County Transportation Improvement Authority to fund the construction of the Warm Springs Extension and the Oakland Airport Connector projects.

The major additions in fiscal years 2013 and 2012 to capital projects are detailed on page 9.

Special Item

The special item of $53,194,000 in fiscal year 2011 refers to the net loss related to the write off of the Advanced Automatic Train Control Project due to its termination. There are no special items in fiscal years 2013 or 2012.

Statements of Net Position

A comparison of the District's *Statements of Net Position* as of June 30, 2013, 2012 and 2011 is as follows (dollar amounts in thousands):

	2013	2012	2011
Current assets	$ 1,101,857	$ 1,000,432	$ 955,259
Noncurrent assets - capital assets, net	6,519,049	6,077,309	5,726,847
Noncurrent assets - other	55,545	132,918	134,081
Total assets	7,676,451	7,210,659	6,816,187
Current liabilities	352,075	385,592	306,837
Noncurrent liabilities	1,537,849	1,435,025	1,446,872
Total liabilities	1,889,924	1,820,617	1,753,709
Net position			
Net investment in capital assets	5,302,267	5,067,636	4,765,595
Restricted	252,613	169,128	133,389
Unrestricted	231,647	153,278	163,494
Total net position	$ 5,786,527	$ 5,390,042	$ 5,062,478

Current Assets
In fiscal year 2013, current assets increased by $101,425,000 primarily from (1) an increase of $35,356,000 on the receivables from funding agencies for reimbursement of paid and accrued capital project expenditures due to timing in submission and receipt of payment of invoices; (2) an increase of $5,623,000 in receivables from the Capitol Corridor Joint Powers Authority, mostly for advances for capital project expenses; (3) an increase of $34,577,000 in unrestricted cash and cash equivalents due to timing of payment of vendor invoices; (4) an increase in current restricted investments of $99,999,000 representing unspent proceeds from issuance of 2012 Series B Sales Tax Revenue Bonds for the Oakland Airport Connector project; and offset by (4) a net decrease of $79,935,000 in restricted cash and cash equivalents from a combination of the following: (a) an increase of $82,321,000 from unspent portion of advances received from grantors from Proposition 1B funds allocated for various projects, (b) an increase of $11,086,000 from a portion of the proceeds from the 2012 Series B Sales Tax Revenue Bonds deposited in a checking account, (c) a decrease of $138,413,000 for payments of seismic related project expenses funded by the General Obligation Bonds, and (d) a decrease from disbursements of $34,929,000 related to the 2002 SFO Premium Fare Bonds for refund of excess premium fare to the General Fund from funds held by Trustee ($13,119,000) and for a portion used to defease the bonds in 2013 and for debt service payments ($21,810,000).

In fiscal year 2012, current assets increased by $45,173,000 mainly due to (1) an increase of $137,887,000 on the receivables from funding agencies for reimbursements of paid and accrued capital project expenditures due to increased project activity and timing in submission of invoices; offset by (2) a decrease of $95,277,000 in cash, cash equivalents and investments.

Noncurrent Assets - Other
In fiscal year 2013, noncurrent assets – other showed a decrease of $77,373,000 principally from (1) a reduction of $70,309,000 in deposits for sublease obligations ($24,565,000), interest receivable ($20,060,000), and investments ($25,684,000) used for the settlement of part of the District's obligation for the early termination of the lease with Wells Fargo Bank and CIBC Capital Corporation; (2) a net decrease of $3,306,000 in previously capitalized debt issuance costs that were reclassified as a component of long-term debt related to sales tax revenue bonds that were refunded in fiscal year 2013; and (3) a decrease of $4,403,000 in investments used to defease a portion of the 2002 Premium Fare Bonds.

In fiscal year 2012, noncurrent assets – other showed a small decrease of $1,163,000, which is mainly due to the advance payment in fiscal year 2013 of the full principal amount ($1,363,000) of the notes receivable from real estate installment sales. Because of this advance payment, the notes receivable was shown as current assets – other in fiscal year 2012.

Current Liabilities
In fiscal year 2013, current liabilities showed a decrease of $33,517,000, which is primarily attributable to: (1) a decrease of $22,407,000 due mainly to timing in the remittance of funds to Metropolitan Transportation Commission related to the BART Car Replacement Funding Exchange Agreement – see note 8 to the financial statements; (2) a decrease of $3,661,000 in payables to vendors and contractors due to the timing of receiving and paying their invoices; (3) a decrease of $8,240,000 in the current portion of long-term debt; (4) a slight decrease of $3,310,000 in the current portion of advances from grantors based on estimated fund utilization; and offset by (5) an increase of $3,590,000 in payables to employees due to the timing of remitting payroll taxes and benefits and from an increase in unfunded liabilities ($2,468,000) for other post-employment benefits.

In fiscal year 2012, current liabilities showed an increase of $78,755,000, which is primarily due to (1) an increase in payables to vendors and contractors of $43,657,000 due to the timing of receiving and paying their invoices; (2) an increase of $4,903,000 in the current portion of long-term debt; (3) an increase of $37,283,000 in the current portion of advances from grantors due to new advances received in fiscal year 2012 from Proposition 1B PTMISEA allocations; and offset by (4) a decrease of $8,221,000 in payables to employees for salaries and benefits due to the timing of remitting the payroll taxes and deferred compensation withheld from employees' salaries and a decrease in temporary overdraft in the payroll direct deposit bank account.

Noncurrent Liabilities

In fiscal year 2013, non-current liabilities increased by $102,824,000 primarily from (1) a net increase in long-term debt of $4,722,000 due to (a) an increase of $57,506,000 from the issuance of 2012 Series A and B Sales Tax Revenue Bonds in October 2012, net of debt service payments and increase in debt related items; (b) an increase $4,189,000 in lease/leaseback obligations due to accretion; (c) an increase of $8,240,000 in long-term debt due to a reduction in the current portion; and offset by (d) a decrease of $65,213,000 in lease/leaseback obligations from early termination of the leases with Wells Fargo Bank and CIBC Capital Corporation; (2) an increase of $3,351,000 in accruals for unfunded other post-employment benefits; (3) an increase of $92,421,000 in advances from grantors mostly from new funds received related to projects funded by Proposition 1B; (4) an increase of $10,602,000 in the self-insurance reserve for worker's compensation and general liability to align the reserve to the actuarially determined amount; offset by (5) a decrease of $6,687,000 in previously deferred gain due to the termination of the lease/leaseback transactions.

In fiscal year 2012, noncurrent liabilities decreased by $11,847,000, which is principally attributed to (1) a net decrease of $27,753,000 in long-term debt because of (a) principal payments amounting to $25,955,000, (b) an increase of $4,903,000 in the current portion of long-term debt, (c) a decrease of $625,000 in debt related items; offset by (d) an increase in the lease/leaseback obligation of $3,730,000 due to accretion; (2) an increase of $11,045,000 in the noncurrent portion of the advances received from grantors due to new advances received in fiscal year 2012; (3) an increase of $6,272,000 in the self-insurance reserve for workers' compensation to align the reserve to the amount recommended by the actuarial report; (4) a decrease of $1,484,000 in the noncurrent portion of the deferred gain on the lease/leaseback obligation; and (5) increase of $3,466,000 in postemployment benefits.

Capital Assets

Details of the capital assets, net of accumulated depreciation, as of June 30, 2013, 2012 and 2011 are as follows (dollar amounts in thousands):

	2013	2012	2011
Land	$ 549,685	$ 544,874	$ 544,874
Stations, track, structures and improvements	3,087,961	3,069,628	3,015,489
Buildings	8,336	8,470	8,604
Revenue transit vehicles	197,933	266,561	313,147
Other	430,852	353,679	370,275
Construction in progress	2,244,282	1,834,097	1,474,458
Total capital assets	$ 6,519,049	$ 6,077,309	$ 5,726,847

The District's capital assets before depreciation and retirements showed a net increase of $588,301,000 in 2013 and $486,537,000 in 2012. There were no major retirements in fiscal 2013 and 2012. Major additions in capital assets included capital expenditures for the acquisition and/or major improvements related to the following assets (dollar amounts in thousands):

Core system and extensions	$ 422,181	$ 436,933
Train control equipment	18,843	9,095
Revenue transit vehicles	110,326	14,657
Automatic fare collections and other equipment	33,703	21,635

Core system and extensions projects included among others the Oakland Airport Connector, Warm Springs Extension, the Hayward Maintenance Complex and the ongoing Earthquake Safety Program. Revenue transit vehicle expenses are associated with the project to procure and replace the existing rail cars.

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $1,694,140,000 at June 30, 2013 and $1,149,567,000 at June 30, 2012.

Long-Term Debt

The outstanding balance of total long-term debt (including current portion but excluding unamortized balance of bond premium/discounts) as of June 30, 2013, 2012 and 2011 are as follows (dollar amounts in thousands):

	2013	2012	2011
Bonds payable from and collateralized by a pledge of sales tax revenues	$ 742,355	$ 626,455	$ 650,210
Construction loans payable from the net operating surplus of the SFO Extension	88,500	88,500	88,500
Construction loan for temporary cash flow requirements of the SFO Extension	5,000	21,000	21,000
Lease/leaseback obligation, including accumulated accretion, for rail traffic control equipment	-	61,024	57,294
Bonds payable from the premium fare imposed on the passengers who board on or depart from the San Francisco International Airport Station	-	52,570	53,445
General obligation bonds	410,690	412,540	413,865
Total long-term debt	$ 1,246,545	$ 1,262,089	$ 1,284,314

Total long-term debt in fiscal year 2013 decreased by $15,544,000 from a combination of the following transactions: (1) a net increase of $115,900,000 in outstanding sales tax revenue bonds after accounting for the issuance of 2012 Series A and 2012 Series B Bonds for $241,560,000 in October 2012 and payment, including defeasance, which totaled $125,660,000 in fiscal year 2013; offset by (2) a decrease of $52,570,000 from retirement of all outstanding 2002 SFO Extension Premium Fare Bonds; (3) a net decrease of $61,024,000 from the close out of all outstanding sublease obligations with Wells Fargo Bank and CIBC Corporation due to the early termination of the leases; (4) a decrease of $17,850,000 due to scheduled principal payments for the construction loan ($16,000,000) and general obligation bonds ($1,850,000).

There were no additions to long-term debt in fiscal year 2012.

The decrease of $22,225,000 in long-term debt in 2012 was mainly due to the decrease in the scheduled principal payments and amortization.

On January 19, 2012, Fitch Ratings (Fitch) downgraded the District’s sales tax revenue bonds to “AA” from “AA+” and downgraded the District’s general obligation bonds to “AA+” from “AAA”. On October 4, 2012, the District issued the 2012 Sales Tax Revenue Bonds, Series A & B, and obtained a rating of “AA+” from Standard & Poor’s Ratings Services (S&P) and a rating of “AA” from Fitch. On November 21, 2013, the District also issued the 2013C General Obligation Bonds. Moody’s Investors Service (Moody’s) and S&P assigned a rating of “Aaa” and “AAA”, respectively, to the 2013C Bonds.

Economic Factors and Next Year's Budgets

On June 13, 2013, The District's Board of Directors adopted a balanced operating budget of $797,000,000 and a capital budget of $737,300,000 for the fiscal year 2014. The operating budget may be revised once labor negotiations have been completed and new labor contracts have been approved.

BART continues to experience a positive trend in ridership which is expected to grow to an average weekday trips of over 400,000 trips per day for fiscal year 2014. In order to meet future increase in ridership and its impact on system capacity, the District needs to invest on its aging rail vehicle fleet and infrastructure.

The current operating budget includes a total of $46,000,000 allocation to the Rail Car Sinking Fund as part of BART's $298,000,000 initial commitment for its share of the phase I acquisition of 410 rail cars. In addition, BART's Board of Directors also dedicated the additional revenue that will be generated from extending the productivity-adjusted inflation-based fare increase program towards its top three priority capital projects – Rail Car Replacement Program, Hayward Maintenance Center and Automated Train Control. The fiscal year 2014 operating budget also included $32,900,000 for other state of good repair needs, such as the continuing program to replace seats and floors in the current fleet, and the "baseline" State of Good Repair allocation that provides for local match on capital grants. Despite these investments commitment, the District needs to aggressively seek other funding sources to increase its existing capital resources in order to sustain its current state of reliability.

The largest program areas for capital expenditure next year will be system expansion and system renovation which include the rail car replacement program, station modernization, replacement of train control system, traction power, trackway renovation and other capital projects. System expansion projects include the eBART, Oakland Airport Connector, Warm Springs, the Silicon Valley extension programs, and construction of the Hayward Maintenance Complex. Work will also continue on essential security upgrades, life safety improvements, and ADA/system accessibility improvements.

Contacting the District's Financial Management

The District's financial report is designed to provide the District's Board of Directors, management, investors, creditors, legislative and oversight agencies, citizens and customers with an overview of the District's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Scott Schroeder, Controller-Treasurer, at 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Net Position
June 30, 2013 and 2012
(dollar amounts in thousands)

	2013	2012
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 123,682	$ 89,106
Investments	569	386
Capital grants receivable	392,210	356,854
Receivables and other assets	28,968	24,152
Materials and supplies	26,566	26,832
Total unrestricted current assets	571,995	497,330
Restricted assets		
Cash and cash equivalents	429,578	502,836
Investments	100,284	266
Total restricted current assets	529,862	503,102
Total current assets	1,101,857	1,000,432
Noncurrent assets		
Capital assets		
Nondepreciable	2,793,967	2,378,971
Depreciable, net of accumulated depreciation	3,725,082	3,698,338
Unrestricted assets		
Investments	22,620	22,620
Receivables and other assets	6,857	10,103
Restricted assets		
Investments	14,202	44,288
Receivables and other assets	11,866	31,342
Deposits for sublease obligation	-	24,565
Total noncurrent assets	6,574,594	6,210,227
Total assets	7,676,451	7,210,659
Liabilities		
Current liabilities		
Accounts payable and other liabilities	232,892	255,371
Current portion of long-term debt	30,875	39,115
Self-insurance liabilities	15,141	13,988
Unearned revenue	73,167	77,118
Total current liabilities	352,075	385,592
Noncurrent liabilities		
Accounts payable and other liabilities	72,170	69,447
Long-term debt, net of current portion	1,242,320	1,237,598
Self-insurance liabilities, net of current portion	34,007	23,404
Unearned revenue	189,352	104,576
Total noncurrent liabilities	1,537,849	1,435,025
Total liabilities	1,889,924	1,820,617
Net position		
Net investment in capital assets	5,302,267	5,067,636
Restricted for debt service and other liabilities	252,613	169,128
Unrestricted	231,647	153,278
Total net position	$ 5,786,527	$ 5,390,042

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2013 and 2012
(dollar amounts in thousands)

	2013	2012
Operating revenues		
Fares	$ 406,890	$ 367,342
Other	36,384	34,513
Total operating revenues	443,274	401,855
Operating expenses		
Transportation	177,699	167,742
Maintenance	228,766	214,196
Police services	52,303	50,365
Construction and engineering	19,021	17,821
General and administrative	143,285	134,472
Depreciation	145,474	138,010
Total operating expenses	766,548	722,606
Less - capitalized costs	(54,063)	(54,978)
Net operating expenses	712,485	667,628
Operating loss	(269,211)	(265,773)
Nonoperating revenues (expenses)		
Transactions and use tax - sales tax	208,561	195,214
Property tax	53,181	49,874
Operating financial assistance	47,728	49,894
Contribution for BART car replacement funding exchange program	(23,980)	(25,940)
Investment income	2,328	11,023
Interest expense	(38,104)	(43,247)
Other (expense) income, net	(3,870)	1,057
Total nonoperating revenues, net	245,844	237,875
Change in net position before capital contributions	(23,367)	(27,898)
Capital contributions	419,852	355,462
Change in net position	396,485	327,564
Net position, beginning of year	5,390,042	5,062,478
Net position, end of year	$ 5,786,527	$ 5,390,042

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Cash Flows
For the years ended June 30, 2013 and 2012
(dollar amounts in thousands)

	2013	2012
Cash flows from operating activities		
Receipts from customers	$ 394,833	$ 361,881
Payments to suppliers	(166,782)	(116,237)
Payments to employees	(390,717)	(379,343)
Other operating cash receipts	28,834	31,281
Net cash used in operating activities	(133,832)	(102,418)
Cash flows from noncapital financing activities		
Transactions and use tax (sales tax) received	154,492	145,134
Property tax received	31,586	28,702
Financial assistance received	49,889	46,424
Net cash provided by noncapital financing activities	235,967	220,260
Cash flows from capital and related financing activities		
Transactions and use tax (sales tax) received	54,069	50,080
Property tax received	20,765	19,908
Capital grants received	484,024	276,785
Expenditures for facilities, property and equipment	(591,916)	(499,425)
Proceeds from bond issuance	264,998	-
Principal paid on long-term debt	(196,080)	(25,955)
Payments of long-term debt issuance and service costs	(1,054)	(19)
Interest paid on long-term debt	(35,883)	(40,261)
Principal payments received from notes receivable	1,340	128
Contribution for BART car replacement funding exchange program	(46,387)	-
Deposit received (refunded)	(302)	999
Cash paid on early termination of lease/leaseback obligation	(25,408)	-
Net cash used in capital and related financing activities	(71,834)	(217,760)
Cash flows from investing activities		
Proceeds from sale and maturity of investments	30,087	179,073
Purchase of investments	(100,199)	(3,002)
Investment income	1,129	4,116
Net cash provided by (used in) investing activities	(68,983)	180,187
Net change in cash and cash equivalents	(38,682)	80,269
Cash and cash equivalents, beginning of year	591,942	511,673
Cash and cash equivalents, end of year	$ 553,260	$ 591,942
Reconciliation of cash and cash equivalents to the Statements of Net Position		
Current, unrestricted assets - cash and cash equivalents	$ 123,682	$ 89,106
Current, restricted assets - cash and cash equivalents	429,578	502,836
Total cash and cash equivalents	$ 553,260	$ 591,942

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Cash Flows, continued
For the years ended June 30, 2013 and 2012
(dollar amounts in thousands)

	2013	2012
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (269,211)	$ (265,773)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	145,474	138,010
Amortization of deferred settlement costs	147	144
Net effect of changes in		
Receivables and other assets	(18,020)	(905)
Materials and supplies	266	175
Accounts payable and other liabilities	(5,182)	18,498
Self-insurance liabilities	11,756	7,525
Unearned revenue	938	(92)
Net cash used in operating activities	$ (133,832)	$ (102,418)
Noncash transactions		
Capital assets acquired with a liability at year-end	$ 70,527	$ 74,941
Lease/leaseback obligation additions	1,960	1,855
Donated land to the State of California	(858)	-
Reduction in interest receivable related to lease/leaseback obligation	26,602	-
Reduction in prepaid sublease and lease/leaseback obligation	24,565	-
(Increase) decrease in fair value of investments	2,382	(2,563)
Reduction of deferred issue costs due to refunding	3,867	-
Amortization of long-term debt premium, discount and issue costs	(3,614)	(1,573)
Addition of loss on early debt retirement	(9,160)	-
Amortization of loss on early debt retirement	1,710	1,410
Amortization of gain on lease/leaseback transaction	2,189	1,537
Amortization of ground lease	534	534

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Retiree Health Benefit Trust
Statements of Trust Net Position
June 30, 2013 and 2012
(dollar amounts in thousands)

	2013	2012
Assets		
Cash and cash equivalents	$ 910	$ 857
Receivables and other assets	464	481
Pending trades receivable	16,176	4,178
Investments		
Domestic common stocks	59,767	52,756
U.S. Treasury obligations	24,201	22,880
Money market mutual funds	15,542	7,969
Mutual funds - equity	42,782	34,694
Corporate obligations	24,050	20,737
Foreign stocks	2,379	785
Foreign obligations	976	1,381
Total investments	169,697	141,202
Total assets	187,247	146,718
Liabilities		
Accounts payable	94	75
Pending trades payable	21,514	7,710
Total liabilities	21,608	7,785
Net position held in trust for retiree health benefits	$ 165,639	$ 138,933

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Retiree Health Benefit Trust
Statements of Changes in Trust Net Position
For the years ended June 30, 2013 and 2012
(dollar amounts in thousands)

	2013	2012
Additions		
Employer contributions		
Cash contributions	$ 10,393	$ 10,100
Pay-as-you-go contributions	15,463	14,516
Total employer contributions	25,856	24,616
Investment income (expense)		
Interest income	3,600	2,880
Realized gain	4,655	3,298
Net appreciation in fair value of investments	8,386	2,835
Investment expense	(287)	(238)
Net investment income	16,354	8,775
Total additions	42,210	33,391
Deductions		
Pay-as-you-go benefit payments	15,463	14,516
Legal fees	1	6
Audit fees	18	18
Insurance expense	22	23
Total deductions	15,504	14,563
Increase in trust net position	26,706	18,828
Net position held in trust for retiree health benefits		
Beginning of year	138,933	120,105
End of year	$ 165,639	$ 138,933

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

1. Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

The San Francisco Bay Area Rapid Transit District (the District) is a public agency created by the legislature of the State of California in 1957 and regulated by the San Francisco Bay Area Rapid Transit District Act, as amended, and subject to transit district law as codified in the California Public Utilities Code. The disbursement of funds received by the District is controlled by statutes and by provisions of various grant contracts entered into with federal, state and local agencies.

Basis of Accounting and Presentation

The basic financial statements provide information about the District's Enterprise Fund and the Retiree Health Benefit Trust Fund (the Trust). Separate statements for each fund category – proprietary and fiduciary – are presented. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Revenues from property taxes are recognized in the fiscal year for which the taxes are levied; revenue from sales taxes are recognized in the fiscal year when the underlying exchange takes place; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

The Enterprise Fund, a proprietary fund, distinguishes operating revenues and expenses from nonoperating items. The District's operating revenues are generated directly from its transit operations and consist principally of passenger fares. Operating expenses for the transit operations include all costs related to providing transit services. These costs include labor, fringe benefits, materials, supplies, services, utilities, leases and rentals, and depreciation on capital assets. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The Trust, a fiduciary fund, is used to account for assets held by the District as a trustee to pay retiree health care premiums. The assets of the Trust cannot be used to support the District's programs.

Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

The District records investment transactions on the trade date. Investments in nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposits and guaranteed investment contracts) are reported at cost and all other investments are at fair value. Fair value is defined as the amount that the District could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller and for the District's investments is generally measured by quoted market prices. As a matter of policy, the District usually holds investments until their maturity.

Restricted Assets

Certain assets are classified as restricted assets on the statement of net position because their use is subject to externally imposed stipulations, either by certain bond covenants, laws or regulations or provisions of debt agreements.

Capital Grants/Contributions
The District receives grants from the Federal Transit Administration (FTA) and other agencies of the U.S. Department of Transportation, the State of California, and local transportation funds for the acquisition of transit-related equipment and improvements. Capital grants receivables represent amounts expected from governmental agencies to reimburse the District for costs incurred for capital projects (Notes 8 and 9).

Materials and Supplies
Materials and supplies consist primarily of replacement parts for the system and rail vehicles, which are stated at cost using the average-cost method. Materials and supplies are expensed as consumed.

Bond Issuance Costs, Discounts, Premiums and Loss on Refundings
The bond issuance costs, discounts, premiums and loss on refundings, are deferred and amortized over the term of the bonds as a component of interest expense. The unamortized portion of these items except the bond issuance costs, which are classified as part of receivables and other assets, are presented as a reduction of the face amount of bonds payable.

Capital Assets
Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 80 years. The District's policy is to capitalize acquisitions of capital assets with a cost of $5,000 or more and a useful life of more than one year, and all costs related to capital projects, regardless of amounts. Upon disposition, costs and accumulated depreciation/amortization are removed from the accounts and resulting gains or losses are included in operations.

The District capitalizes, as intangible capital assets, easements and right-of-ways and internally generated intangibles such as computer software. Easements and right-of-ways are not amortized as they have indefinite useful lives while computer software is amortized over a period of 20 years.

Major improvements and betterments to existing facilities and equipment are capitalized. Costs for maintenance and repairs that do not extend the useful life of the applicable assets are charged to expense as incurred. The District capitalizes certain interest income and expense related to tax-free borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax-free borrowings. Amounts capitalized were net interest expense of $17,478,000 in fiscal year 2013 and $13,197,000 in fiscal year 2012.

Unearned Revenue
Unearned revenue consists of (1) prepayments of revenues related to license fees paid by telecommunication companies for the use of the District's right of way for wireless accessibility to their customers; (2) estimated passenger tickets sold but unused; (3) advances received from grant agreements; and (4) prepayments of ground lease revenues (Note 14).

Compensated Absences

Compensated absences are reported and accrued as a liability in the period incurred. Compensated absences have a total balance of $56,865,000 as of June 30, 2013 and $57,867,000 as of June 30, 2012 and is shown in the statements of net position in accounts payable and other liabilities (see Note 5) as follows (dollar amounts in thousands):

	2013	2012
Current liabilities	$ 20,043	$ 19,171
Noncurrent liabilities	36,822	38,696
Total	$ 56,865	$ 57,867

Pollution Remediation

The recognition of pollution remediation obligations (including contamination) address the current or potential detrimental effects of existing pollution by estimating costs associated with participating in pollution remediation activities, such as site assessments and cleanups. There are no known material remediation obligations that the District is currently or potentially involved in.

Net Position

Net investment in capital assets include capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation and include amounts restricted for debt service and other liabilities. All other net position is unrestricted. Generally, the District's policy is to spend restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Transactions and Use Tax (Sales Tax) Revenues

The State of California legislation authorizes the District to impose a 0.5% transaction and use tax within District boundaries, which is collected and administered by the State Board of Equalization. Of the amounts available for distribution, 75% is paid directly to the District for the purpose of paying operating expenses, except for the portion that is paid directly to trustees to cover principal and interest payments of maturing sales tax revenue bonds. The remaining 25% is allocated by the Metropolitan Transportation Commission (MTC) to the District, the City and County of San Francisco, and the Alameda-Contra Costa Transit District for transit services. The District records the total transactions and use taxes earned (including amounts paid to the trustees) as nonoperating revenue.

Property Taxes, Collection and Maximum Rates

The State of California Constitution Article XIII.A provides that the general purpose maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII.A and may be adjusted by no more than 2% per year, unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts, such as the District.

The District receives an allocation of property tax revenues for transit operations. Additionally, beginning in fiscal year 2006, the District received property tax allocations for the debt service payments on the 2005 and 2007 General Obligation Bonds. As required by the law of the State of California, the District utilizes the services of each of the three BART Counties of Alameda, Contra Costa and San Francisco for the assessment and collection of taxes for District purposes. District taxes are collected at the same time and on the same tax rolls as county, school district and other special district taxes. Property taxes are recorded as revenue in the fiscal year of levy. Assessed values are determined annually by the Assessor's Offices of City and County of San Francisco, County of Alameda and County of Contra Costa on January l, and become a lien on the real properties at January 1. The levy date for secured and unsecured properties is July 1 of each year. Secured taxes are due November l and February 1 and are delinquent if not paid by December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent after August 31.

Operating Financial Assistance
Financial assistance grants for operations from federal, state and local agencies are reported as nonoperating revenue in the period in which all eligibility requirements have been satisfied (Notes 8 and 9).

Collective Bargaining
Approximately 87% of the District's employees are subject to collective bargaining. The current bargaining units consist of the following:

- American Federation of State, County and Municipal Employees (AFSCME), Local 3993
- Amalgamated Transit Union (ATU), Local 1555
- Service Employees International Union (SEIU), Local 1021
- BART Police Officers Association (BPOA)
- BART Police Managers Association (BPMA)

Capitalized Costs
The District initially charges employee salaries, wages and benefits to operating expenses by functional expense category. Labor costs included in those amounts that are associated with capital projects are subsequently adjusted to be included in the cost of the related capital asset. This adjustment is reflected in the statement of revenues, expenses and changes in net position as a reduction of operating expenses. The amounts of $54,063,000 and $54,978,000 were capitalized during the years ended June 30, 2013 and 2012, respectively.

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 certain reported amounts and disclosures. Actual results could differ from those estimates.

New Accounting Pronouncements Adopted

Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. As of July 1, 2011, the District adopted this statement which did not have a significant impact to its financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and renames the resulting measure as net position rather than net assets. The provisions of this statement are effective for financial statements for periods beginning December 15, 2011. As of July 1, 2011, the District adopted the above GASB standards, which did not have a significant impact on its financial statements.

Recent Accounting Pronouncements That Have Not Been Adopted

The District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards for certain items that were previously reported as assets and liabilities. Certain items will be reclassified as deferred outflows of resources or deferred inflows of resources. This statement also amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in GASB Concepts Statement 4. Application of this statement is effective for the District's fiscal year ending June 30, 2014.

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 - An Amendment of GASB Statements No. 10 and No. 62*. The portion of the statement, which may have applicability to the District, enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement modifies the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. Application of this statement is effective for the District's fiscal year ending June 30, 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The significant changes in this statement address (1) the measurement and reporting of pension obligations associated with defined benefit pension plans and (2) the calculations of pension expense. GASB 68 also covers:

- Reporting of deferred outflows and deferred inflows of resources;
- Methods and assumptions of pension calculations, including how to calculate the discount rate to be used and how to attribute the pension liability to various periods;
- Note disclosure and required supplementary information; and
- Defined contribution pension plan reporting.

Application of this statement is effective for the District's fiscal year ending June 30, 2015.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this statement is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB 68.

2. Cash, Cash Equivalents and Investments

A. Cash, Cash Equivalents and Investments of the Enterprise Fund

Cash, cash equivalents and investments are reported in the Enterprise Fund as follows (dollar amounts in thousands):

	2013			2012		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Current assets						
Cash and cash equivalents	$ 123,682	$ 429,578	$ 553,260	$ 89,106	$ 502,836	$ 591,942
Investments	569	100,284	100,853	386	266	652
Noncurrent assets						
Investments	22,620	14,202	36,822	22,620	44,288	66,908
Total	$ 146,871	$ 544,064	$ 690,935	$ 112,112	$ 547,390	$ 659,502

Investment Policy

The California Public Utilities Code, Section 29100, and the California Government Code (CGC), Section 53601, provide the basis for the District's investment policy. To meet the objectives of the investment policy – (1) preservation of capital, (2) liquidity, and (3) yield – the investment policy, approved by the Board of Directors, specifically identifies the types of permitted investments, as well as any maturity limits and other restrictions. The following table presents the authorized investment, requirements, and restrictions per the CGC and the District's investment policy:

Investment Type	Maximum Maturity (1)		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating (2)	
	CGC	District	CGC	District	CGC	District	CGC	District
U.S. Treasury Obligations (bills, bonds, or notes)	5 years	5 years	None	None	None	None	None	None
U.S. Agencies	5 years	5 years	None	None	None	None	None	None
Bankers' Acceptances	180 days	180 days	40%	40%	30%	30%	None	None
Commercial Paper (3)	270 days	270 days	25%	25%	10%	10%	P1	P1
Negotiable Certificates	5 years	5 years	30%	30%	None	None	None	None
Repurchase Agreements	1 year	1 year	None	None	None	None	None	None
Reverse Repurchase Agreements	92 days	90 days	20%	20%	None	None	None	None
Local Agency Investment Fund	N/A	N/A	None	(4)	None	None	None	None
Non-Negotiable Time Deposits	5 years	5 years	30%	30%	None	None	None	None
Medium Term Notes/Bonds (3)	5 years	5 years	30%	30%	None	None	A	A
Municipal Securities of California Local Agencies	5 years	5 years	None	None	None	None	None	None
Mutual Funds	N/A	N/A	20%	(4)	10%	10%	AAA	AAA
Notes, Bonds, or Other Obligations	5 years	5 years	None	None	None	None	None	None
Mortgage Pass-Through Securities	5 years	5 years	20%	20%	None	None	AAA	AAA
Financial Futures (3)	N/A	N/A	None	None	None	None	None	None

Footnotes
(1) In the absence of a specified maximum, the maximum is 5 years.
(2) Minium credit rating categories include modifications (+/-).
(3) District will not invest in these investment types unless specifically authorized by the Board.
(4) District may invest in an amount not to exceed $25,000,000.

Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds and funds set aside for debt service. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Securities of the U.S. Government and its agencies	None	None	None	None
Housing Authority Bonds or project notes issued by public agencies or municipalities fully secured by the U.S.	None	None	None	None
Obligations of any state, territory, or commonwealth of the U.S. or any agency or political subdivisions thereof	None	Aa1/AA+	None	None
Collateralized time deposits	None	A-1	None	None
Commercial paper	None	Aaa/AAA	None	None
Repurchase agreements	None	None	None	None
Money market mutual funds	None	None	None	None
Investment agreements	None	Aa1/AA+	None	None
Other investments approved by the Board that will not adversely affect ratings on bonds	None	None	None	None
Corporate bonds, notes, and debentures	None	Aa1/AA+	None	None
Local Agency Investment Fund	None	None	None	None

Interest Rate Risk
Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. One of the District's primary objectives is to provide sufficient liquidity to meet its cash outflow needs, however, the District does not have any policies specifically addressing interest rate risk, except as outlined in the CGC. A summary of investments by type of investments and by segmented time distribution as of June 30, 2013 and 2012 is as follows (dollar amounts in thousands):

	2013	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 - 5	6 - 10
Money market mutual funds*	$ 137,867	$ 137,867	$ -	$ -
Repurchase agreements	36,822	-	36,822	-
U.S. Treasury bills	99,999	99,999	-	-
Total investments	274,688	$ 237,866	$ 36,822	$ -
Deposits with banks	412,854			
Certificates of deposit	854			
Imprest funds	2,539			
Total cash and investments	$ 690,935			

	2012	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 - 5	6 - 10
Money market mutual funds*	$ 309,308	$ 309,308	$ -	$ -
U.S. government agencies	30,087	4,403	421	25,263
Repurchase agreements	36,822	-	36,822	-
Total investments	376,217	$ 313,711	$ 37,243	$ 25,263
Deposits with banks	279,897			
Certificates of deposit	652			
Imprest funds	2,736			
Total cash and investments	$ 659,502			

* weighted-average maturity

Credit Risk

The District's credit rating risk is governed by Section 53601 of the CGC which, among others, limits investments in money market mutual funds to those funds with the highest evaluations granted by the rating agencies, which is Aaam. The District has investments in U.S. Treasury and government agencies, bank repurchase agreements (underlying of U.S. Treasury securities and others), and in money market mutual funds. There are no investment limits on the securities of U.S. Treasury or certain U.S. government agencies that are backed by the full faith and credit of the United States government. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's, Fitch Ratings and/or Moody's as of June 30, 2013 and 2012 (dollar amounts in thousands):

	2013	Credit Ratings			
	Fair Value	AAA	AA	A	Not Rated
Money market mutual funds	$ 137,867	$ 125,546	$ -	$ 12,321	$ -
Repurchase agreements	36,822	-	-	36,822	-
U.S. Treasury bills	99,999	99,999	-	-	-
Total investments	274,688	$ 225,545	$ -	$ 49,143	$ -
Deposits with banks	412,854				
Certificates of deposit	854				
Impress funds	2,539				
Total cash and investments	$ 690,935				

	2012	Credit Ratings			
	Fair Value	AAA	AA	A	Not Rated
Money market mutual funds	$ 309,308	$ 255,495	$ 53,813	$ -	$ -
U.S. Government agencies	30,087	-	4,403	511	25,173
Repurchase agreements	36,822	-	-	36,822	-
Total investments	376,217	$ 255,495	$ 58,216	$ 37,333	$ 25,173
Deposits with banks	279,897				
Certificates of deposit	652				
Imprest funds	2,736				
Total cash and investments	$ 659,502				

Concentration of Credit Risk

The District does not have a policy to limit investments in any one issuer to no more than 5% of the total portfolio. However, the California Government Code Section 53601.7 requires that investments in one issuer do not exceed 5% of the entity's total portfolio, except obligations of the United States government, United States government agencies, and United States government-sponsored enterprises and no more than 10% of the entity's total portfolio may be invested in any one mutual fund. At June 30, 2013 and 2012, the investments with Bayerische Landesbank Investment Repurchase Agreement amounted to $36,822,000, which exceeded 5% of the District's total investment portfolio at 13.4% and 9.8%, respectively.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The CGC Section 53652 requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. Such collateral is considered to be held in the District's name.

Custodial Credit Risk - Investments

For investments, custodial credit risk is the risk that in the event of a failure of the counterparty, the District may not be able to recover the value of its investments. The exposure to the District is limited as the District's investments are held in the District's name by a third-party safe-keeping custodian that is separate from the counterparty or in the custody of a trust department, as required by bond covenants.

B. Investments of the Retiree Health Benefit Trust

Investment Policy

The investment objective of the Trust is to achieve consistent long-term growth for the Trust and to maximize income consistent with the preservation of capital for the sole and exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Trust. The District's Board of Directors establishes the general investment policy and guidelines for the Trust. Allowable investments under the Trust investment guidelines include:

- Cash equivalents such as U.S. Treasury bills, money market trusts, short-term interest fund (STIF) trusts, commercial paper rated A1/P1, banker's acceptances, certificates of deposits and repurchase agreements;

- Fixed income securities, which include U.S. agency and corporation bonds (including Yankees) and preferred stock and Rule 144A issues, and mortgage or asset-backed securities; and

- Equity securities, including U.S. traded common, preferred stocks and convertible stocks and bonds, including American Depository Receipts.

Interest rate risk

The Trust's investment policies mitigate exposure to changes in interest rates by requiring that the assets of the Trust be invested in accordance with the following asset allocation guidelines:

Asset Class	Minimum	Maximum	Preferred
Equity securities	45%	70%	60%
Fixed income securities	25%	45%	35%
Cash equivalents	3%	10%	5%

Fixed income securities have the following maturity restrictions: 1) maximum maturity for any single security is 40 years and 2) the weighted average portfolio maturity may not exceed 25 years.

A summary of investments by type of investments and by segmented time distribution as of June 30, 2013 and 2012 is as follows (dollar amounts in thousands):

	2013	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	$ 24,201	$ 3	$ 6,981	$ 6,086	$ 11,131
Money market mutual funds*	15,542	15,542	-	-	-
Corporate obligations	24,050	784	14,822	3,815	4,629
Foreign obligations	976	-	804	172	-
Investments subject to interest rate risk	64,769	$ 16,329	$ 22,607	$ 10,073	$ 15,760
Domestic common stocks	59,767				
Mutual funds- equity	42,782				
Foreign stocks	2,379				
Total investments	$ 169,697				

	2012	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	$ 22,880	$ 29	$ 9,150	$ 5,149	$ 8,552
Money market mutual funds*	7,969	7,969	-	-	-
Corporate obligations	20,737	316	9,278	7,798	3,345
Foreign obligations	1,381	-	786	595	-
Investments subject to interest rate risk	52,967	$ 8,314	$ 19,214	$ 13,542	$ 11,897
Domestic common stocks	52,756				
Mutual funds- equity	34,694				
Foreign stocks	785				
Total investments	$ 141,202				

* weighted-average maturity

Credit Risk

The Trust's credit risk policy is defined in its Statement of Investment Policy approved by the District's Board of Directors. The policy states that the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Trust's objectives and that the Trust's investment managers are expected to make reasonable efforts to control risk. The investment policy requires that all of the Trust's assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Trust, with minimal impact on market prices. The investment policy also demands that no single investment shall exceed five percent of the total Trust assets, at market value, except obligations of the U.S. Government, short-term money market funds, index funds and other diversified commingled accounts; and for actively managed equity accounts, where, for issues that comprise more than 4% of the account's stated benchmark, the limit shall be 125% of the weight of the common stock benchmark. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's and/or Moody's as of June 30, 2013 and 2012 (dollar amounts in thousands):

	2013	Credit Ratings					
	Fair Value	AAA	AA	A	BBB	BB	Not Rated
U.S. Treasury obligations	$ 24,201	$ -	$ 24,201	$ -	$ -	$ -	$ -
Money market mutual funds	15,542	15,542	-	-	-	-	-
Corporate obligations	24,050	4,074	2,345	12,559	1,567	1,280	2,225
Foreign obligations	976	-	418	167	391	-	-
Investments subject to credit risk	64,769	$ 19,616	$ 26,964	$ 12,726	$ 1,958	$ 1,280	$ 2,225
Domestic common stocks	59,767						
Mutual funds - equity	42,782						
Foreign stocks	2,379						
Total investments	$ 169,697						

	2012	Credit Ratings				
	Fair Value	AAA	AA	A	BBB	BB
U.S. Treasury obligations	$ 22,880	$ 199	$ 22,681	$ -	$ -	$ -
Money market mutual funds	7,969	7,969	-	-	-	-
Corporate obligations	20,737	6,398	1,984	7,314	3,769	1,272
Foreign obligations	1,381	-	433	948	-	-
Investments subject to credit risk	52,967	$ 14,566	$ 25,098	$ 8,262	$ 3,769	$ 1,272
Domestic common stocks	52,756					
Mutual funds - equity	34,694					
Foreign stocks	785					
Total investments	$ 141,202					

Concentration of Credit Risk

The Trust's investment policies mitigate exposure to concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5% of the total portfolio.

Custodial Credit Risk – Investments

For investments, custodial credit risk is the risk that in the event of a failure of the counterparty, the Trust may not be able to recover the value of its investments. The exposure to the Trust is limited as the Trust's investments are in the custody of a third-party custodian that is separate from the counterparty.

3. Receivables and Other Assets

The District reports the following aggregated accounts as receivables and other assets in the statements of net position as of June 30, 2013 and 2012 (dollar amounts in thousands):

	2013	2012
Interest receivable - trust for sublease obligation	$ -	$ 22,653
Interest receivable - other investments	2	369
Unamortized issuance costs	6,842	9,969
Deferred charges	412	678
Deposit for power supply	10,774	10,555
Off-site ticket vendor receivable	3,315	2,662
Notes receivable	-	1,340
Capitol Corridor Joint Powers Authority receivable (Note 14)	8,503	2,880
Property tax receivable	2,383	1,554
Prepaid expenses	9,638	8,316
Imprest deposits for self-insurance liabilities	1,063	984
Other	5,081	3,983
Allowance for doubtful accounts	(322)	(346)
Total receivables and other assets	$ 47,691	$ 65,597
Current, unrestricted portion	$ 28,968	$ 24,152
Noncurrent, unrestricted portion	6,857	10,103
Noncurrent, restricted portion	11,866	31,342
Total receivables and other assets, as presented in the basic financial statements	$ 47,691	$ 65,597

4. Capital Assets

Changes to capital assets during the year ended June 30, 2013 were as follows (dollar amounts in thousands):

	Lives (Years)	2012	Additions and Transfers	Retirements and Transfers	2013
Capital assets, not being depreciated					
Land	N/A	$ 544,874	$ 5,669	$ (858)	$ 549,685
Construction in progress	N/A	1,834,097	588,301	(178,116)	2,244,282
Total capital assets, not being depreciated		2,378,971	593,970	(178,974)	2,793,967
Capital assets, being depreciated					
Tangible Asset					
Stations, track, structures and improvements	80	4,008,657	72,320	-	4,080,977
Buildings	80	10,732	-	-	10,732
System-wide operation and control	20	588,136	10,202	-	598,338
Revenue transit vehicles	30	1,103,557	-	-	1,103,557
Service and miscellaneous equipment	3-20	219,215	45,024	(139)	264,100
Capitalized construction and start-up costs	30	98,305	-	-	98,305
Repairable property items	30	61,334	44,900	-	106,234
Intangible Asset					
Information systems	20	41,292	-	-	41,292
Total capital assets, being depreciated		6,131,228	172,446	(139)	6,303,535
Less accumulated depreciation		(2,432,890)	(145,702)	139	(2,578,453)
Total capital assets, being depreciated, net		3,698,338	26,744	-	3,725,082
Total capital assets, net		$ 6,077,309	$ 620,714	$ (178,974)	$ 6,519,049

Changes to capital assets during the year ended June 30, 2012 were as follows (dollar amounts in thousands):

	Lives (Years)	2011	Additions and Transfers	Retirements and Transfers	2012
Capital assets, not being depreciated					
Land	N/A	$ 544,874	$ -	$ -	$ 544,874
Construction in progress	N/A	1,474,458	488,700	(129,061)	1,834,097
Total capital assets, not being depreciated		2,019,332	488,700	(129,061)	2,378,971
Capital assets, being depreciated					
Tangible Asset					
Stations, track, structures and improvements	80	3,902,394	106,263	-	4,008,657
Buildings	80	10,732	-	-	10,732
System-wide operation and control	20	587,303	901	(68)	588,136
Revenue transit vehicles	30	1,103,557	-	-	1,103,557
Service and miscellaneous equipment	3-20	214,507	6,791	(2,083)	219,215
Capitalized construction and start-up costs	30	98,305	-	-	98,305
Repairable property items	30	48,744	12,602	(12)	61,334
Intangible Asset					
Information systems	20	38,788	2,504	-	41,292
Total capital assets, being depreciated		6,004,330	129,061	(2,163)	6,131,228
Less accumulated depreciation		(2,296,815)	(138,010)	1,935	(2,432,890)
Total capital assets, being depreciated, net		3,707,515	(8,949)	(228)	3,698,338
Total capital assets, net		$ 5,726,847	$ 479,751	$ (129,289)	$ 6,077,309

After the completion of the San Francisco International Airport Extension in 2004, which added 38 miles of track and 10 new stations to the system, the District embarked on three expansion projects, which include the East Contra Costa BART Extension (eBART) in Contra Costa County, the Oakland Airport Connector (OAC) in Alameda County and the Warm Springs Extension (WSX) also in Alameda County. The OAC Project is expected to be in revenue operation in October 2014, the WSX Extension in December 2015 and the eBART Extension in December 2017.

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $1,694,140,000 at June 30, 2013, and $1,149,567,000in 2012.

5. Accounts Payable and Other Liabilities

The District reports the following aggregated payables as accounts payable and other liabilities in the statements of net position as of June 30, 2013 and 2012 (dollar amounts in thousands):

	2013	2012
Payable to vendors and contractors	$ 144,037	$ 169,144
Employee salaries and benefits	21,664	21,430
Accrued compensated absences	56,865	57,867
Net OPEB obligation	57,222	51,387
Accrued interest payable	25,274	24,990
Liabilities at the end of year	305,062	324,818
Less noncurrent portion	(72,170)	(69,447)
Net current portion	$ 232,892	$ 255,371

6. Long-Term Debt

Long-term debt activity for the year ended June 30, 2013 is summarized as follows (dollar amounts in thousands):

	2012	Additions/ Accretion	Payments/ Amortization	2013
2001 Sales Tax Revenue Bonds	$ 43,765	$ -	$ (43,765)	$ -
2005 Sales Tax Revenue Refunding Bonds	281,465	-	(9,010)	272,455
2006 Sales Tax Revenue Bonds	64,915	-	(63,615)	1,300
2006 Sales Tax Revenue Refunding Bonds	107,130	-	(5,885)	101,245
2010 Sales Tax Revenue Refunding Bonds	129,180	-	(3,385)	125,795
2012 Sales Tax Revenue Refunding Bonds	-	130,475	-	130,475
2012 Sales Tax Revenue Bonds	-	111,085	-	111,085
Construction Loans	109,500	-	(16,000)	93,500
Lease/Leaseback Obligation	44,375	-	(44,375)	-
2002 SFO Extension Premium Fare Bonds	52,570	-	(52,570)	-
2005 General Obligation Bonds	38,675	-	(950)	37,725
2007 General Obligation Bonds	373,865	-	(900)	372,965
	1,245,440	241,560	(240,455)	1,246,545
Add (less):				
Accumulated Accretion on Lease/Leaseback Obligation	16,649	4,189	(20,838)	-
Debt related items*	14,624	14,279	(2,253)	26,650
Long-term debt net of accumulated accretion and debt related items	1,276,713	$ 260,028	$ (263,546)	1,273,195
Less: current portion of long-term debt	(39,115)			(30,875)
Net long-term debt	$ 1,237,598			$ 1,242,320

* Debt related items consist of deferred amounts on refundings, discounts and premiums.

Long-term debt activity for the year ended June 30, 2012 is summarized as follows (dollar amounts in thousands):

	2011	Additions/ Accretion	Payments/ Amortization	2012
1990 Sales Tax Revenue Refunding Bonds	$ 14,905	$ -	$ (14,905)	$ -
2001 Sales Tax Revenue Bonds	43,765	-	-	43,765
2005 Sales Tax Revenue Refunding Bonds	289,690	-	(8,225)	281,465
2006 Sales Tax Revenue Bonds	64,915	-	-	64,915
2006 Sales Tax Revenue Refunding Bonds	107,340	-	(210)	107,130
2010 Sales Tax Revenue Refunding Bonds	129,595	-	(415)	129,180
Construction Loans	109,500	-	-	109,500
Lease/Leaseback Obligation	44,375	-	-	44,375
2002 SFO Extension Premium Fare Bonds	53,445	-	(875)	52,570
2005 General Obligation Bonds	39,595	-	(920)	38,675
2007 General Obligation Bonds	374,270	-	(405)	373,865
	1,271,395	-	(25,955)	1,245,440
Add (less):				
Accumulated Accretion on Lease/Leaseback Obligation	12,919	3,987	(257)	16,649
Debt related items*	15,249	-	(625)	14,624
Long-term debt net of accumulated accretion and debt related items	1,299,563	$ 3,987	$ (26,837)	1,276,713
Less: current portion of long-term debt	(34,212)			(39,115)
Net long-term debt	$ 1,265,351			$ 1,237,598

* Debt related items consist of deferred amounts on refundings, discounts and premiums.

1990 Sales Tax Revenue Refunding Bonds (the 1990 Refunding Bonds)
In July 1990, the District issued sales tax revenue refunding bonds totaling $158,478,000 to refund and defease $141,045,000 outstanding principal amount of the District’s Sales Tax Revenue Bonds, Series 1985. The 1990 Refunding Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. As of June 30, 2012, the 1990 Refunding Bonds were fully paid.

2001 Sales Tax Revenue Bonds (the 2001 Bonds)
In July 2001, the District issued sales tax revenue bonds totaling $168,650,000 to fund the rehabilitation of District rail cars and certain other capital improvements, to fund capital reserves to be utilized in connection with the SFO Extension project and to refund certain outstanding bonds with principal amounts of $41,175,000. The 2001 Bonds are special obligations of the District payable from and secured by a pledge of sales tax revenues. In August 2005, 2001 Bonds with principal amounts totaling $19,640,000 were refunded from the proceeds of the 2005 Bonds. Another refunding of the 2001 Bonds occurred in July 2006 when 2001 Bonds with principal amounts totaling $102,560,000 were refunded from the proceeds of the 2006 Refunding Bonds. In October 2012, the remaining outstanding balance of $41,745,000 were refunded from the proceeds of the 2012 Sales Tax Revenue Refunding Bonds (2012 Series A Refunding Bonds).

2005 Sales Tax Revenue Refunding Bonds (the 2005 Refunding Bonds)
In August 2005, the District issued the Sales Tax Revenue Bonds, Refunding Series 2005A totaling $352,095,000. The 2005 Refunding Bonds were used to advance refund $349,925,000 in aggregate principal amount of sales tax revenue bonds related to the Sales Tax Revenue Bonds, Series 1995, 1998, 1999, and 2001. The 2005 Refunding Bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2013, the 2005 Refunding Bonds consist of $183,335,000 in serial bonds due from 2014 to 2027 with interest rates ranging from 3.958% to 5.00%, two 5.00% term bonds in the amounts of $55,685,000 and $31,785,000 due in 2031 and 2035, respectively, and one 4.50% term bond for $1,650,000 due in 2031.

2006 Sales Tax Revenue Bonds (the 2006 Bonds)
In June 2006, the District issued sales tax revenue bonds with an aggregate principal amount of $64,915,000 to finance a portion of the cost of construction of a new transit station, the West Dublin/Pleasanton Station including two parking facilities, pedestrian bridges, a bus intermodal facility and related improvements. The 2006 Bonds are special obligations of the District payable from and secured by a pledge of sales tax revenues. In October 2012, the 2006 Bonds with principal amounts totaling $63,615,000 were refunded from the proceeds of the 2012 Series A Refunding Bonds. At June 30, 2013, the 2006 Bonds outstanding consist of $1,300,000 in serial bonds due from 2015 to 2017 with an interest rate of 4.0%.

2006 Sales Tax Revenue Refunding Bonds (the 2006 Refunding Bonds)
On November 30, 2006, the District issued the Sales Tax Revenue Bonds, Refunding Series 2006A, with a principal amount of $108,110,000 to advance refund a portion of the 2001 Bonds with an aggregate principal amount of $102,560,000. The 2006 Refunding Bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues. At June 30, 2013, the 2006 Refunding Bonds consist of serial bonds amounting to $46,675,000 due from 2014 to 2028 with interest rates ranging from 4.0% to 5.0%, and term bonds totaling $54,570,000 of various maturity dates from 2029 to 2037 with an interest rate of 4.25%. The term bonds are subject to redemption in part, by lot, from Mandatory Sinking Account Payments required by the Indenture on certain dates, at the principal amount of the 2006 Refunding Bonds to be redeemed plus accrued interest, if any, to the redemption date.

2010 Sales Tax Revenue Refunding Bonds (the 2010 Refunding Bonds)
On May 5, 2010, the District issued the Sales Tax Revenue Bonds, Refunding Series 2010, with a principal amount of $129,595,000 to provide sufficient funds to refund a portion of the 1998 Bonds with an aggregate principal amount of $143,825,000, to fund a deposit to the Series 2010 Reserve Account in the bond reserve fund and to pay costs of issuance of the Series 2010 Bonds. The District funded from its

own funds the Bond Reserve Fund in the amount of $14,202,000. The 2010 Refunding Bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues. At June 30, 2013, the 2010 Refunding Bonds consist of serial bonds amounting to $125,795,000 with interest rates ranging from 3.0% to 5.0%, with various maturity dates from 2014 to 2029.

2012 Sales Tax Revenue Refunding Bonds (the 2012 Series A Refunding Bonds)
On October 4, 2012, the District issued the Sales Tax Revenue Bonds, Refunding Series 2012A, with a principal amount of $130,475,000 and a premium of $23,439,000 to provide sufficient funds, along with $10,690,000 in other District funds, to refund $51,605,000 principal amount of the Association of Bay Area Governments BART SFO Extension Bond (Airport Premium Fare), 2002 Series A, to refund the remaining balance of the 2001 Bonds with an aggregate principal amount of $41,745,000, to refund $63,615,000 principal amount of the 2006 Series A Bonds, and to fund costs of issuance of the Series A 2012 Refunding Bonds. The 2012 Series A Refunding Bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues. At June 30, 2013, the 2012 Series A Refunding Bonds consist of serial bonds amounting to $98,140,000 with interest rates ranging from 2.0% to 5.0% with various maturity dates from 2014 to 2033, and a term bond in the amount of $32,335,000 due in 2037. The refunding resulted in economic gain of $25,132,000 and cash flow savings of $35,819,000.

2012 Sales Tax Revenue Refunding Bonds (the 2012 Series B)
On October 4, 2012, the District issued the Sales Tax Revenue Bonds, Series 2012B, with a principal amount of $111,085,000 to provide financing for the Oakland International Airport Connector Project and to fund the costs of issuance. The 2012 Series B are special obligations of the District, payable from and secured by a pledge of sales tax revenues. At June 30, 2013, the 2012 Series B consist of serial bonds amounting to $25,060,000 with interest rates ranging from 0.460% to 2.677% with various maturity dates from 2014 to 2023, a term bond in the amount of $15,670,000 with interest rate of 3.477% due in 2028, a term bond in the amount of $18,815,000 with interest rate of 4.087% due in 2033 and a term bond in the amount of $51,540,000 with interest rate of 4.287% due in 2043.

Construction Loans
In March 1999, the District, MTC and San Mateo County Transit District (SamTrans) entered into a Memorandum of Understanding (MOU), which provided additional funds for the SFO Extension project in the form of construction loans from each agency.

As of June 30, 2013, the outstanding construction loans consist of funds received for the SFO Extension project costs from SamTrans for $72,000,000 and MTC for $16,500,000 and $5,000,000 from MTC for the project's temporary cash requirements. The District provided $50,000,000 of its own funds to assist with the financing of the SFO Extension project costs. The terms and conditions of the MOU provide that the loans for project costs will be repaid, without interest, from the future net operating surplus generated by the SFO Extension. Such repayments of the loans for project costs from SamTrans and MTC totaling $88,500,000 plus reimbursement of the District's $50,000,000, will commence after SamTrans' capital contribution to the District's Warm Springs Extension project is fully paid. MTC's loan for the project's temporary cash requirements of $5,000,000 will be repaid from the District's general fund by the year ending in June 2014, with a 3% simple interest rate.

Lease/Leaseback Obligation
On March 19, 2002, the District entered into a transaction to lease rail traffic control equipment (the Network) to investors through March 19, 2042 (the head lease) and simultaneously sublease the Network

back through January 2, 2018 (the sublease). At the expiration of the sublease term the District has the option to purchase back the remaining head lease interest.

At closing, the Network had a fair market value of approximately $206,000,000 and a book value of $203,000,000. Under the terms of the head lease, the District received a prepayment equivalent to the net present value of the head lease obligation totaling approximately $206,000,000, of which the District paid approximately $146,000,000 to a Payment Undertaker. Under the terms of the agreement, the Payment Undertaker committed to pay the debt portion of the District's sublease obligation and to set aside funds to enable the District to exercise its purchase option of the head lease interest, if it chooses to do so. Of the remaining head lease proceeds, approximately $37,000,000 was deposited to a trust account to be used to pay the remaining equity portion of the District's sublease obligation and to set aside additional funds to enable the District to exercise its purchase option of the head lease interest, if it chooses to do so. The District received cash from the lease/leaseback transaction amounting to approximately $23,000,000. The cash gain was deferred and was being amortized over a period of 15.75 years through January 2, 2018.

On September 2, 2009, the District entered into a Termination Agreement with Key Equipment Finance, Inc., which is one of the three Equity Investors in the Lease/Leaseback transaction. Under the terms of the Termination Agreement, the District bought back the portion of the head lease interest identified with Key Equipment Finance for a total purchase price equal to the sum of (1) $30,559,000 plus (2) all principal and interest related to the debt portion of the District sublease obligation to Key Equipment Finance Inc., Subject to the terms and conditions of the Termination Agreement, Key Equipment Finance, Inc. acknowledge that all of its respective right, title, and interest in and to the Head Lease Interest, the Network and the Software Rights are automatically terminated and all such right, title, and interest vest in the District.

On June 26, 2013, the remaining leases with Wells Fargo Bank and CIBC Capital Corporation were also terminated. The total purchase price was equal to the sum of (1) $47,456,000 plus (2) all principal and interest related to the debt portion of the District's sublease obligations to Wells Fargo Bank and CIBC Capital Corporation. The termination agreements specify that the transactions effected pursuant to these agreements constitute an exercise by the District of the Purchase Option at the end of the term of the sublease and that the District's obligations under the head lease, the sublease and other operative agreement were satisfied. The early termination of the leases with Wells Fargo Bank and CIBC Corporation resulted in a net loss of $4,675,000 which is shown as part of other income (expense), net, in the District's statements of revenues, expenses and changes in net position.

2002 SFO Extension Premium Fare Bonds (the Airport Premium Fare Bonds)
On October 1, 2002, the Association of Bay Area Governments ("ABAG") issued BART SFO Extension Bonds ("Airport Premium Fare Bonds"), 2002 Series, in the amount of $56,715,000. The Airport Premium Fare Bonds were issued for the benefit of the District's SFO Extension project. The proceeds were used to finance a portion of the costs of the SFO Extension project, including all system-wide and associated improvements and expenditures related to the extension. The Airport Premium Fare Bonds are limited obligations of ABAG payable solely from and collateralized solely by amounts received from the District pursuant to a Pledge and Contribution Agreement, dated October 1, 2002, between ABAG and the District. The Airport Premium Fare Bonds are not a general obligation of ABAG. The District's obligation to make payments under the Pledge and Contribution Agreement is limited to and payable solely from and collateralized solely by a pledge of the premium fare imposed and collected by the District from passengers who board or depart the District's rapid transit system at the San Francisco International Airport station. The District's obligation to make such payments under the Pledge and

Contribution Agreement is not a general obligation of the District. The payments of the principal and interest when due, are insured by a financial guaranty insurance policy issued by an insurance company. In October 2012, the remaining outstanding aggregate principal balance of $51,605,000 were refunded from the proceeds of the 2012 Series A Refunding Bonds.

2005 General Obligation Bonds (the 2005 GO Bonds)
In May 2005, the District issued the General Obligation Bonds (Elections 2004), 2005 Series A with an aggregate principal amount of $100,000,000. The 2005 GO Bonds constitute a portion of the total authorized amount of $980,000,000 of general obligation bonds of the District duly authorized by at least two-thirds of the qualified voters of the District voting on a ballot measure ("Measure AA") at an election held on November 2, 2004. The 2005 GO Bonds constitute the first issue of general obligation bonds being issued pursuant to the Measure AA authorization.

The 2005 GO Bonds were issued to finance earthquake safety improvements to BART facilities, including aerial trackway structures, underground trackway structures, including the Transbay Tube, and at-grade trackway structures, stations, and administrative, maintenance, and operations facilities and to finance additional retrofits to facilitate a rapid return to service after an earthquake or other disasters. The 2005 GO Bonds are general obligations of the District, payable from and secured solely by ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except for certain personal property which is taxable at limited rates) levied in Alameda and Contra Costa Counties and the City and County of San Francisco. No other revenues of the District are pledged to the payment of the 2005 GO Bonds. At June 30, 2013, the 2005 GO Bonds consist of $18,110,000 in serial bonds due from 2014 to 2027 with interest ranging from 3.40% to 5.00%, a $7,720,000 term bond at 4.50% due in 2031 and a $11,895,000 term bond at 5.00% due in 2036. The District is required to make sinking fund payments on the term bond due in 2031 beginning in 2028 and on the term bond due in 2036 beginning in 2032.

2007 General Obligation Bonds (the 2007 GO Bonds)
On July 25, 2007, the District issued the General Obligation Bonds (Election of 2004), 2007 Series B with a principal amount of $400,000,000. The 2007 GO Bonds constitute the second issue of general obligation bonds being issued pursuant to the Measure AA authorization as discussed in the preceding paragraph regarding the 2005 GO Bonds. Similar to the 2005 GO Bonds, the 2007 GO Bonds were issued to finance earthquake safety improvements to BART facilities in the three BART Counties, including strengthening tunnels, bridges, overhead tracks and the underwater Transbay Tube. The 2007 GO Bonds are general obligations of the District payable from and secured solely by ad valorem taxes upon all property subject to taxation by the District levied in Alameda and Contra Costa Counties and the City and County of San Francisco. No other revenues of the District are pledged to the payment of the 2007 GO Bonds. At June 30, 2013, the 2007 GO Bonds consist of $108,515,000 in serial bonds due from 2014 to 2028 with interest rates ranging from 4.00% to 5.00%, and three term bonds totaling $264,450,000 due in 2033, 2036 and 2038 with interest rates ranging from 4.75% to 5.00%. The bonds maturing in 2033, 2036 and 2038 are subject to mandatory sinking fund redemptions starting in 2029, 2034 and 2037, respectively.

After the issuance of the 2005 and the 2007 GO Bonds, the remaining General Obligation Bonds that can be issued by the District as authorized under Measure AA is $480,000,000.

Defeased Bonds

On various dates, the District issued bonds to refund certain outstanding sales tax revenue bonds previously issued by the District. In October 2012, $51,605,000 aggregate principal amount of the Airport Premium Fare, 2002 Series A, $41,745,000 remaining aggregate balance of the 2001 Bonds, and $63,615,000 aggregate principal amount of the 2006 Series A Bonds were refunded from the proceeds of the 2012 Series A Refunding Bonds.

On the above described defeasances, the District placed in irrevocable trusts the required amounts to pay the future debt service payments on the defeased bonds. The advance refunding met the requirement of the in-substance debt defeasance, and the defeased bonds were removed from the District's long-term debt. Accordingly the trust accounts assets and liabilities for the defeased bonds are not included in the District's financial statements.

As of June 30, 2013, $63,615,000 aggregate principal balance of the 2006 Series A Bonds are outstanding. These outstanding bonds are scheduled to be redeemed on July 1, 2014.

The District deferred, and amortized as a component of interest, the difference between the reacquisition price and the net carrying amount of the old debts and amortized over the life of the defeased bonds. The unamortized balance of deferred loss on early debt retirement is $32,999,000 on June 30, 2013 and $25,548,000 on June 30, 2012. Amortization expense on these deferred charges were $1,710,000 $1,410,000 in fiscal years 2013 and 2012.

Arbitrage Bonds

The District is subject to certain bond covenants, including the rules set forth by IRS Code Section 148a, which requires that interest earned on the proceeds of a tax exempt bond issuance does not exceed the interest expense related to those bonds, which qualifies those bonds as arbitrage bonds. Any excess interest income is subject to a 100% tax and is payable to the Federal Government. As of June 30, 2013, the District has recorded an estimated arbitrage liability amounting to $4,000 in 2013 and 2012, which is included in accounts payable and other liabilities in the statements of net position.

Pledge of Revenue to Repay Sales Tax Revenue Bonds

The District issues sales tax revenue bonds primarily to finance a portion of its capital projects. The sales tax revenue bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues derived from a seventy-five percent (75%) portion of a transactions and use tax levied by the District in Alameda and Contra Costa Counties and the City and County of San Francisco in an amount equal to one-half of one percent (0.5%) of gross retail receipts. The sales tax revenue bonds outstanding as of June 30, 2013 consist of the 2005 Refunding Bonds, the 2006 Bonds, the 2006 Refunding Bonds, the 2010 Refunding Bonds, the 2012 Series A Refunding Bonds and the 2012 Series B Bonds. Interest on the sales tax revenue bonds are payable on January 1 and July 1 of each year, and the principal on July 1 of the scheduled year until 2043. The total principal and interest remaining on these sales tax revenue bonds is $1,161,730,000 as of June 30, 2013 ($983,287,000 as of June 30, 2012), which is 11.32% in 2013 (14% in 2012) of the total projected sales tax revenues of $10,264,191,000 as of June 30, 2013 ($7,031,535,000 as of June 30, 2012). The total projected sales tax revenues covers the period from fiscal year 2014 through fiscal year 2043, which is the last scheduled bond principal payment. The pledged sales tax revenues recognized in fiscal year 2013 was $208,561,000 ($195,214,000 in fiscal year 2012) as against a total debt service payment of $54,053,000 in fiscal year 2013 (exclude $105,360,000 for the bonds refunded), and $54,526,000 in fiscal year 2012.

Debt Repayments

The following is a schedule of long-term debt principal and interest payments required as of June 30, 2013 (dollar amounts in thousands):

Sales Tax Revenue Bonds

Year ending June 30:	2005 Refunding Bonds Principal	2005 Refunding Bonds Interest	2006 Bonds Principal	2006 Bonds Interest	2006 Refunding Bonds Principal	2006 Refunding Bonds Interest
2014	$ 12,630	$ 12,651	$ -	$ 52	$ 2,190	$ 4,215
2015	13,445	12,006	145	46	2,070	4,111
2016	15,130	11,298	435	29	1,145	4,054
2017	15,920	10,543	720	-	1,390	3,985
2018	17,020	9,744	-	-	1,105	3,940
2019-2023	45,870	40,415	-	-	16,355	17,917
2024-2028	84,590	26,797	-	-	22,420	13,582
2029-2033	51,180	7,843	-	-	27,730	8,160
2034-2038	16,670	427	-	-	26,840	1,771
	$ 272,455	$ 131,724	$ 1,300	$ 127	$ 101,245	$ 61,736

Year ending June 30:	2010 Refunding Bonds Principal	2010 Refunding Bonds Interest	2012A Refunding Bonds Principal	2012A Refunding Bonds Interest	2012B Bonds Principal	2012B Bonds Interest
2014	$ 1,530	$ 6,074	$ 3,330	$ 6,093	$ 3,780	$ 3,910
2015	1,580	6,027	2,855	6,008	-	3,910
2016	1,620	5,962	2,985	5,918	2,535	3,891
2017	2,925	5,845	1,640	5,852	2,555	3,864
2018	3,045	5,723	2,605	5,748	2,580	3,830
2019-2023	59,660	21,629	17,905	26,536	13,610	18,310
2024-2028	47,380	5,672	27,015	20,956	15,670	16,019
2029-2033	8,055	-	39,805	12,357	18,815	12,647
2034-2038	-	-	32,335	2,300	23,075	8,163
2039-2043	-	-	-	-	28,465	2,543
	$ 125,795	$ 56,932	$ 130,475	$ 91,769	$ 111,085	$ 77,087

	Construction Loans		2005 General Obligation Bonds		2007 General Obligation Bonds		Total	
Year ending June 30:	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2014	$ 5,000	$ 150	$ 980	$ 1,737	$ 1,435	$ 18,182	$ 30,875	$ 53,064
2015	-	-	1,015	1,701	2,010	18,103	23,120	51,912
2016	-	-	1,050	1,662	2,640	18,000	27,540	50,814
2017	-	-	1,090	1,621	3,315	17,870	29,555	49,581
2018	-	-	1,130	1,576	4,050	17,706	31,535	48,269
2019-2023	-	-	6,440	7,012	33,435	84,448	193,275	216,267
2024-2028	-	-	8,210	5,163	61,630	72,241	266,915	160,430
2029-2033	-	-	10,330	2,960	101,520	51,292	257,435	95,259
2034-2038	-	-	7,480	417	162,930	18,009	269,330	31,087
2039-2043	-	-	-	-	-	-	28,465	2,543
Thereafter	88,500	-	-	-	-	-	88,500	-
	$ 93,500	$ 150	$ 37,725	$ 23,849	$ 372,965	$ 315,851	$ 1,246,545	$ 759,226

7. Risk Management

The District is partially self-insured for workers' compensation, public liability and property damage claims. The self-insured retention for workers' compensation is $4,000,000 per accident and the limit of liability is $10,000,000. The self-insured retention for public liability and property damage is $7,500,000 for any one occurrence. Claims in excess of self-insured retentions are covered up to a total of $95,000,000 by insurance policies. There have been no settlement amounts during the past three years that have exceeded the District's insurance coverage.

The self-insurance programs are administered by independent claims adjustment firms. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities are discounted at a 3% rate, in part, upon the independent adjustment firms' estimate of reserves necessary for the settlement of outstanding claims and related administrative costs, and include estimates of claims that have been incurred but not yet reported, including loss adjustment expenses. Such reserves are estimated by professional actuaries through March 31 and are subject to periodic adjustments as conditions warrant.

The estimated liability for insurance claims at June 30, 2013 is believed to be sufficient to cover any costs arising out of claims filed or to be filed for accidents occurring through that date. At June 30, 2013 and 2012, the estimated amounts of these liabilities were $49,148,000 and $37,392,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal years are as follows (dollar amounts in thousands):

	2013	2012
Liabilities at beginning of year	$ 37,392	$ 29,867
Current year claims and changes in estimates	25,748	18,905
Payments of claims	(13,992)	(11,380)
Liabilities at the end of year	49,148	37,392
Less current portion	(15,141)	(13,988)
Net noncurrent portion	$ 34,007	$ 23,404

8. Federal Capital Contributions and Operating Financial Assistance

The U.S. Department of Transportation and other federal agencies provide capital funding to the District for construction projects, planning and technical assistance. Cumulative information for grants which were active during the years ended June 30, 2013 and 2012 are summarized as follows (dollar amounts in thousands):

	2013	2012
Total approved project costs	$ 4,491,061	$ 4,540,358
Cumulative amounts of project costs incurred and earned	$ 1,482,164	$ 1,476,041
Less: approved federal allocations received	(1,369,987)	(1,377,349)
Capital grants receivable - Federal	$ 112,177	$ 98,692

The District's fleet replacement project consisting of construction for the A, B, C1 and C2 fleet replacement was formally launched in 2013. To set aside funding for this program, the District and MTC, on May 24, 2006, entered into the BART Car Replacement Funding Exchange Agreement. Under the agreement, MTC agrees to program federal funds to eligible BART projects that are ready to be delivered within the year of MTC's programming action. In exchange for MTC programming funds for ready-to-go BART projects, the District will deposit an equal amount of local unrestricted funds into a restricted account established to fund BART's car replacement program. MTC is the exclusive administrator of the restricted account and any withdrawal of funds from the account requires prior approval from the MTC Commission and the District's Board. In accordance with the agreement, MTC allocated Federal Section 5307 Grants for $23,980,000 in fiscal year 2013 and $25,940,000 in fiscal year 2012 to fund the District's preventive maintenance expenses. Accordingly, the District remitted to MTC $25,940,000 for fiscal year 2012 allocation on August 17, 2012 and $20,446,000 for fiscal year 2013 allocation on April 5, 2013, the equivalent amount of its own funds, which were deposited by MTC to the restricted account. The federal grant is shown as nonoperating revenue – operating financial assistance and the District's remittance to MTC is shown as nonoperating expense in the District's financial statements.

In fiscal year 2013, the MTC commission and the District's Board authorized a withdrawal of $15,500,000 from the restricted account to support the Rail Car Replacement Program. The amount received was recorded as capital contributions. The restricted account for BART's car replacement program held by MTC, which is excluded from the District's financial statements, reported a balance of $125,528,000 as of June 30, 2013 and $94,504,000 as of June 30, 2012. On July 25, 2013, the District made an additional remittance of $3,534,000 to MTC for the fiscal year 2013 allocation.

9. State and Local Operating and Capital Financial Assistance

The District is eligible to receive local operating and capital assistance from the Transportation Development Act Funds (TDA). There was no TDA operating assistance received in fiscal years 2013 or 2012. The District was awarded TDA capital allocation of $2,300,000 in fiscal year 2010 and $138,000 in fiscal year 2008 of which $294,000 was earned during fiscal year 2013 and $138,000 in fiscal year 2012. The District may be entitled to receive state operating and capital assistance from the State Transit Assistance Funds (STA). These funds are allocated by MTC based on the ratio of the District's transit operation revenue and local support to the revenue and local support of all state transit agencies. The District received STA operating allocations of $18,596,000 in fiscal year 2013 and $19,847,000 in fiscal year 2012, of which $18,106,000 was earned in fiscal year 2013 and $19,847,000 was earned in fiscal 2012, and $13,702,000 was collected in fiscal year 2013 and $15,286,000 was collected in fiscal year 2012. The District also received STA capital allocations amounting to $1,170,000 awarded in fiscal year 2004, $227,000 awarded in 2008 and $971,000 awarded in 2011, of which $100,000 was earned during fiscal year 2013 and $61,000 was earned during fiscal year 2012.

The District receives Paratransit funds provided to cities and transit operators from Alameda County Measure B funds to be used for services aimed at improving mobility for seniors and persons with disabilities. The Alameda County Transportation Commission is the administrator of Measure B funds. In fiscal year 2013, the District's revenues that relate to the Measure B funds were $1,714,000 ($1,623,000 in fiscal year 2012) for the annual assistance for paratransit operating funds and $243,000 ($53,000 in fiscal year 2012) from the Contra Costa Transportation Authority Measure J funds for operating expenses.

On February 28, 2007, the District, SamTrans, and MTC entered into a Tri-Party Financial Agreement establishing the operational and financial arrangement regarding the BART San Francisco International Airport Extension. To fund the operating costs of the SFO Extension, the agreement provided that (1) the District will receive up-front funding of $24,000,000 from MTC and $32,000,000 from SamTrans from their shares of Proposition 1B funds; (2) the District will also receive 2% of the San Mateo County half cent sales tax, Measure A, which was reauthorized by the voters of San Mateo County in 2004, for 25 years beginning in fiscal year 2009; this amount is currently equal to approximately $1,200,000 per year; and (3) MTC shall allocate to the District additional STA revenue-based funds beginning in fiscal year 2009, which would otherwise be available for allocation to SamTrans as a result of the completion of the Traffic Congestion Relief Program projects, in an amount of $801,000 annually. The above funds will be used first to cover any operating deficit on the SFO Extension and then to complete SamTrans' funding commitment of $145,000,000 to the District's Warm Springs Extension Project. The upfront funding of $24,000,000 from MTC was allocated to the District in 2008 in the form of a capital grant funded by Regional Measure 2 (RM2) revenues. For the purpose of the Tri-Party Agreement, the District is required to make a deposit to the reserve account in an amount equal to the capital reimbursement received from MTC/RM2 revenues. As of June 30, 2013 and 2012, the balance of the reserve account is as follows (dollar amounts in thousands):

	2013	2012
Reserve account at beginning of year	$ 19,369	$ 7,456
Received/accrued	2,273	13,477
Add interest earnings	60	38
Total	21,702	20,971
Less: amount used to cover SFO Extension operating shortfall	(801)	(1,602)
Reserve account at end of year	$ 20,901	$ 19,369

In accordance with the Tri-Party Financial Agreement, the District recognized contributions in fiscal year 2013 of $2,273,000 from SamTrans ($7,534,000 in fiscal year 2012) and zero from MTC ($5,943,000 in fiscal year 2012).

PTMISEA Grants

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, includes a program of funding in the amount of $4 billion to be deposited in the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA). Of this amount, $3.6 billion in the PTMISEA is available to project sponsors in California for allocation to eligible public transportation projects.

The District has cumulatively received a total $294,977,000 in PTMISEA grant funds to fund various BART capital projects. The grants received are in the form of cash for $289,462,000 and reimbursement grants for $5,515,000.

The following schedules show the changes in activities related to the PTMISEA grant funds during the fiscal years 2013 and 2012 (dollar amounts in thousands):

2013	Beginning of Year	Received	Incurred	End of Year
eBART Extension	$ 28,257	$ -	$ 11,611	$ 16,646
Ashby Elevator	249	-	(12)	261
Station Modernization	21,081	99,188	4,594	115,675
Seismic Retrofit	152	-	185	(33) **
Oakland Airport Connector	330	-	224	106
Warm Springs Extentsion	24,917	(100) ***	21,272	3,545
Balboa West Side Entrance	907	-	825	82
Access Improvements	487	5,514	-	6,001
Station Signage*	3,147	-	1,104	2,043
Train Control	-	17,500	-	17,500
	$ 79,527	$ 122,102	$ 39,803	$ 161,826

2012	Grant Fund Balance at Beginning of Year	Grants Received	Project Costs Incurred	Grant Fund Balance at End of Year
eBART Extension	$ 43	$ 28,257	$ 43	$ 28,257
Ashby Elevator	330	-	81	249
Station Modernization	24,299	6,745	9,963	21,081
Seismic Retrofit	239	-	87	152
Oakland Airport Connector	2,261	-	1,931	330
Warm Springs Extentsion	1,336	35,325	11,744	24,917
Balboa West Side Entrance	818	-	(89)	907
Access Improvements	-	487	-	487
Station Signage*	4,568	-	1,421	3,147
	$ 33,894	$ 70,814	$ 25,181	$ 79,527

* This grant is on a reimbursement basis.

** Covered by interest earnings.

*** Grants for $100,000 was reprogrammed from the Warm Springs Extension to Station Modernization.

As of June 30, 2013 and 2012, the unused portion of PTMISEA grant funds received in cash are shown on the statements of net position as a component of unearned revenues as follows (dollar amounts in thousands):

	2013	2012
Cash available, end of year *	$ 159,783	$ 76,615
Less noncurrent portion	(113,096)	(21,489)
Net current portion	$ 46,687	$ 55,126

* includes cash held for retention payable to vendors of $235,000 in 2012

At the end of fiscal year 2013, the PTMISEA funds had earned interest income of $1,348,000 from inception, of which $108,000 was earned in fiscal year 2013 and $118,000 in fiscal year 2012.

10. Employees' Retirement Benefits

Plan Description

All eligible employees participate in the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees' Retirement System (CalPERS) under the Miscellaneous Plan and the Safety Plan of the San Francisco Bay Area Rapid Transit District. The Fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for 3,089 local public agencies and school districts within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and District contractual agreements.

Copies of CalPERS' annual financial report may be obtained from their Executive Office by writing or calling the Plan: California PERS, P.O. Box 942709, Sacramento, CA 94229-2709, (916) 326-3420. A separate report for the District's plan is not available.

Funding Policy and Annual Pension Cost

The Plans funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by contractual agreements. The individual entry age normal cost method is used to determine the normal cost. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age.

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2013 and 2012 was $243,798,000 and $238,781,000, respectively. The District's 2013 and 2012 payroll for all employees was $289,571,000 and $279,037,000, respectively. The District, in compliance with the collective bargaining agreements, also reimburses "classic" employees as defined by CalPERS for their contributions, which are 9% for public safety personnel and 7% for miscellaneous covered employees. Under the California Public Employees' Pension Reform Act of 2013 (PEPRA), effective January 1, 2013, "new" employees as defined by CalPERS and PEPRA contribute ½ of the total normal cost. The contribution rate is 12% for public safety personnel and 6.25% for miscellaneous covered employees.

The annual required contributions for fiscal years 2013 and 2012 were determined by an actuarial valuation of the Plans as of June 30, 2010 and 2009, respectively. The contribution rates in fiscal year 2013 were 11.736% for the Miscellaneous Plan and 41.566% for the Safety Plan. The contribution rates in fiscal year 2012 for the Miscellaneous Plan were 11.986% and 38.001% for the Safety Plan.

The three-year trend information for the Fund of the actuarially required employer contribution is as follows (dollar amounts in thousands):

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed (%)	Net Pension Obligation
Miscellaneous Plan:	June 30, 2011	$ 20,522	100%	$ -
	June 30, 2012	26,355	100%	-
	June 30, 2013	26,565	100%	-
Safety Plan:	June 30, 2011	5,894	100%	-
	June 30, 2012	6,950	100%	-
	June 30, 2013	7,250	100%	-

Funded Status and Funding Progress of the Miscellaneous Plan
As of June 30, 2012, based on CalPERS most recent actuarial report, the Miscellaneous Plan is 91.4% funded. The actuarial accrued liability for benefits was $1,728,926,000, and the actuarial value of assets was $1,581,046,000, resulting in an unfunded actuarial accrued liability (UAAL) of $147,880,000. The covered payroll (annual payroll of active miscellaneous employees covered by the plan) was $226,128,000, and the ratio of the UAAL to the covered payroll was 65.4%

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI), following the Notes to Financial Statements, presents three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress of the Safety Plan
As of June 30, 2012, based on CalPERS most recent actuarial report, the Safety Plan is 73.7% funded. The actuarial accrued liability for benefits was $225,612,000, and the actuarial value of assets was $166,268,000, resulting in an unfunded actuarial accrued liability (UAAL) of $59,344,000. The covered payroll (annual payroll of active safety employees covered by the plan) was $17,406,000, and the ratio of the UAAL to the covered payroll was 340.9%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Assumptions and Methods

CalPERS uses the rate stabilization methodologies in its actuarial valuations which have been shown to be very effective in mitigating rate volatility. A summary of principal assumptions and methods used by CalPERS to determine the District's annual required contributions to the Miscellaneous Plan and Safety Plan is shown below:

Valuation Date	June 30, 2012	June 30, 2010	June 30, 2009
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Average remaining period	Closed; 16 years as of the valuation date for Miscellaneous Plan; and 21 years for the Safety Plan	Closed; 17 years as of the valuation date for Miscellaneous Plan; and 22 years for the Safety Plan	Closed; 18 years as of the valuation date for Miscellaneous Plan; and 22 years for the Safety Plan
Asset valuation method	15 year smoothed market	15 year smoothed market	15 year smoothed market
Investment rate of return	7.50% (net of administrative expenses)	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service and type of employment	3.55% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan; and 3.55% to 13.15% for the Safety Plan	3.55% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan; and 3.55% to 13.15% for the Safety Plan
Inflation	2.75%	3.00%	3.00%
Payroll growth	3.00%	3.25%	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

11. Money Purchase Pension Plan

Most District employees participate in the Money Purchase Pension Plan (MPPP), which is a supplemental retirement defined contribution plan. In January 1981, the District's employees elected to withdraw from the Federal Social Security System (FICA) and established the Money Purchase Pension Plan. The District contributes an amount equal to 6.65% of eligible employees' annual compensation (up to $29,700 after deducting the first $133 paid during each month) up to a maximum annual contribution of $1,868 for all employees except those represented by BART Police Officer Association (BPOA) and BART Police Managers Association (BPMA) pursuant to their labor agreements effective January 1, 2010. An additional contribution to the MPPP equal to 1.627% of eligible compensation is provided to all employees except for represented sworn police officers. Payment of this additional contribution was also suspended for all CalPERS eligible individuals, with various effective dates, pursuant to labor agreements and District policy as a cost saving measure. The annual compensation limit subject to the additional contribution is established by the Internal Revenue Code Section 401(a) (17). Each employee's account is available for distribution upon such employee's termination.

The District's total expense and funded contribution for this plan for the years ended June 30, 2013 and 2012 were $5,776,000 and $4,888,000, respectively. The Money Purchase Pension Plan assets at June 30, 2013 and 2012 (excluded from the accompanying financial statements) per the plan administrator's unaudited reports were $258,290,000 and $249,371,000, respectively. At June 30, 2013, there were approximately 238 (242 in 2012) participants receiving payments under this plan.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing or calling: BART Investments Plans Committee, 300 Lakeside Drive, Oakland, California 94612, (510) 464-6238.

12. Other Postemployment Benefits

In addition to the retirement benefits described in Notes 10 and 11, and specified in the District's contractual agreements, the District provides certain other postemployment benefits ("OPEB") to employees, which may include medical benefits to retirees and surviving spouses, retiree life insurance, survivor dental and vision benefits, and medical benefits to survivors of active employees. Most employees who retire directly from the District or their surviving spouses are eligible for medical benefits if the employee retires at or after age 50 with a minimum of 5 years of service with the District, elects to take an annuity from CalPERS and makes a timely election of retiree medical.

In compliance with GASB requirements, the District accounts for OPEB on an accrual basis and created the Trust, an irrevocable trust. The purpose of establishing the Trust is to facilitate the provision of medical benefits and other health and welfare benefits ("retiree medical benefits") for the qualifying retirees of the District; to provide the means for financing the costs and expenses of operating and administering such benefits; to hold Trust assets for the sole and exclusive purpose of providing benefits to participants and beneficiaries; and to defray the reasonable expenses of administering the Trust and designated plans. Assets placed into the Trust cannot be used for any other purposes and are not available to satisfy general creditors of the District. Under California state law, the restrictions on the use of any proceeds from liquidation of the Trust are significant enough to render the Trust effectively irrevocable. The Trust is administered by one or more Trustees appointed by the District's Board of Directors. Currently, the Board has appointed the District's Controller-Treasurer as the Trustee. The Trust issues a publicly available audited financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing to Retiree Health Benefit Trust, San Francisco Bay Area Rapid Transit District, 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

Currently, the Trust covers the funding only for the "retiree medical benefits", which include retiree health medical benefits and the survivors benefits provided to widows and widowers of retirees. It does not fund the "additional OPEB" which includes the retiree life insurance premiums or the cost to the District of additional benefits available to survivors of employees who, at the time of hire, elected to contribute to a survivor health benefit program. Survivors of employees and retirees who elected this program and who continue to contribute are eligible for medical, dental and vision coverage at a cost of $15/mo. The District has not yet made the decision whether the additional OPEB will be incorporated in the existing Trust or whether a new and separate trust will be established.

Basis of Accounting. The financial statements of the Trust are prepared using the accrual basis of accounting. Beginning with fiscal year 2007, the Trust implemented the GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which established the accounting and financial reporting standards for plans that provide OPEB. The Trust recognizes contributions from the District in accordance with the provisions contained on the District collective bargaining agreements, as described briefly in the following discussion.

Method Used to Value Investments. Investments are reported at fair value as determined by the financial institutions, which have custody of the investments based on quoted market prices.

Funding Policy and Long-Term Contract for Contributions. The District's current collective bargaining agreements with its unions (CBA) describe the District's funding commitments to the Trust. Beginning fiscal year 2008, the District is funding the Trust with a "ramp up" (increasing) percentage of the "full" annual required contribution (ARC) in addition to funding the pay-as-you-go amount outside of the Trust every year for the following six years. Including fiscal years 2007 and 2008, this "ramp-up" contribution funds an eight-year period covering fiscal years 2006 through 2013. The CBAs include the baseline "ramp-up" percentages, which is the minimum amount that the District is committed to contribute to the Trust during the "ramp-up" period. The District shall commission an actuarial study of the retiree medical insurance plan liabilities and funding needs, including the ARC, every year. The revised "ramp-up" percentage shall be the basis of the District's contribution to the Trust, except when it is less than the baseline "ramp-up" percentage. In addition, in fiscal year 2009 the District contributed into the Trust a lump sum make up payment reflecting the amounts it would have contributed for fiscal years 2006 and 2007, which was actuarially calculated at $14,629,000.

Beginning in fiscal year 2014, the District shall, at minimum, contribute to the Trust each pay period an amount equal to the full GASB compliant ARC. The CBAs further state that no retiree health insurance premiums will be paid from the Trust prior to July 1, 2013 and that effective July 1, 2013, the District shall direct the Trustee of the Trust to pay the premiums for the Trust.

Funding Policy. The actuarially calculated ARC for fiscal year 2013, using the June 30, 2011 actuarial valuation, as a percent of covered payroll for the year, are 12.20% (11.52% in fiscal year 2012) for retiree medical benefits and 0.82% (0.72% in fiscal year 2012) for additional OPEB, which amounted to $29,695,000 and $2,070,000, respectively ($28,002,000 and $1,813,000 in fiscal year 2012). In fiscal year 2013, the District contributed cash to the Trust amounting to $10,393,000 for the retiree medical benefits and zero for the additional OPEB to partially fund the OPEB cost for the year. In fiscal year 2012, the District contributed cash to the Trust amounting to $10,100,000 for the retiree medical benefits and zero for the additional OPEB to partially fund the OPEB cost for the year. In addition, the District made payments in fiscal year 2013 on a pay-as-you-go basis, net of retirees' and surviving spouses' share, medical insurance premiums totaling $15,463,000 for 1,866 retirees and surviving spouses ($14,516,000 for 1,812 retirees and surviving spouses in fiscal year 2012) and life insurance premiums amounting to $74,000 ($70,000 in fiscal year 2012). The District does not charge any administration cost to the Trust. Currently, most retirees pay $92.24 per month for their share of the medical premium and the balance is paid by the District. The following tables show the components of the District's annual OPEB cost, the amount contributed to the Trust, pay-as-you-go payments and changes in the net OPEB obligation for fiscal years 2013 and 2012 (dollar amounts in thousands):

Retiree Medical Benefits

	2013	2012
Annual Required Contribution (ARC)	$ 29,695	$ 28,002
Interest on net OPEB obligation	2,786	2,557
Adjustments to ARC	(2,786)	(2,557)
Annual OPEB Cost	29,695	28,002
Contributions made	(25,856)	(24,616)
Increase in Net OPEB obligation	3,839	3,386
Net OPEB obligation, beginning of year	41,267	37,881
Net OPEB obligation, end of year	$ 45,106	$ 41,267

Additional OPEB

	2013	2012
Annual Required Contribution (ARC)	$ 2,070	$ 1,813
Interest on net OPEB obligation	430	356
Adjustments to ARC	(430)	(356)
Annual OPEB Cost	2,070	1,813
Contributions made	(74)	(70)
Increase in Net OPEB obligation	1,996	1,743
Net OPEB obligation, beginning of year	10,120	8,377
Net OPEB obligation, end of year	$ 12,116	$ 10,120

The total net OPEB obligations of $57,222,000 in fiscal year 2013 and $51,387,000 in fiscal year 2012 are shown on the statements of net position as a component of accounts payable and other liabilities.

The three-year trend for the OPEB costs and net OPEB obligation follows (dollar amounts in thousands):

	Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Retiree Medical Benefits	June 30, 2011	$ 28,135	87%	$ 37,881
	June 30, 2012	28,002	88%	41,267
	June 30, 2013	29,695	87%	45,106
Additional OPEB	June 30, 2011	1,894	4%	8,377
	June 30, 2012	1,813	4%	10,120
	June 30, 2013	2,151	7%	12,116

Funded Status and Funding Progress of the Retiree Medical Plan. As of June 30, 2012, based on Keenan and Associates (Keenan)'s most recent actuarial report, the Retiree Medical Plan is 42.3% funded. The actuarial accrued liability for benefits was $328,571,000, and the actuarial value of assets was $138,933,000, resulting in an unfunded actuarial accrued liability (UAAL) of $189,638,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) was $240,465,000, and the ratio of the UAAL to the covered payroll was 78.86%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents the three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress of the Additional OPEB Plan. As of June 30, 2012, based on Keenan's most recent actuarial report, the Additional OPEB Plan is zero percent funded. The actuarial accrued liability for benefits was $33,050,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $33,050,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) was $240,465,000, and the ratio of the UAAL to the covered payroll was 13.74%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents the three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan in effect and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Assumptions and Methods
The latest OPEB actuarial valuation was performed by Keenan in June 2013 using District data as of June 30, 2012. A summary of principal assumptions and methods used by Keenan to determine the District's annual required contributions to the OPEB plans is shown below:

Valuation Date	June 30, 2012	June 30, 2011	June 30, 2010
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Closed, Level percent of payroll	Closed, Level percent of payroll	Closed, Level percent of payroll
Remaining amortization period	21 years	22 years	24 years
Asset valuation method	Market value	Market value	Market value
Discount rate	6.75% for the retiree medical plan; 4.25% for the additional OPEB	6.75% for the retiree medical plan; 4.25% for the additional OPEB	6.75% for the retiree medical plan; 4.25% for the additional OPEB
Inflation rate	2.75%	2.75%	3.00%
Payroll growth rate	3.00% per year	0% through 2012-2013; then 3.00% per year	0% through 2012-2013; then 3.25% per year
Health care cost trend rate for the first year	6.50%	7.00%	7.50%
Ultimate trend rate	3.75%	3.75%	4.00%
Year that rate reaches the ultimate rate	2020	2020	2019

13. Board of Directors' Expenses

Total Directors' expenses, consisting of travel and other business related expenses for the years ended June 30, 2013 and 2012 amounted to $33,000 and $26,000, respectively.

14. Related Organizations and Joint Venture Projects

Capitol Corridor Joint Powers Authority

The Joint Exercise of Powers Agreement dated December 31, 1996, between the District and five other transportation authorities in surrounding counties (Agencies) provided for the creation of the Capitol Corridor Joint Powers Authority (Capitol Corridor), a public instrumentality of the State of California. Capitol Corridor was formed for the purpose of administering and managing the operation of the Capitol Corridor Rail Service as part of the California intercity passenger rail system. The District is the managing agency of Capitol Corridor and in that capacity shall provide all necessary administrative support to Capitol Corridor. Capitol Corridor entered into an Interagency Transfer Agreement with the State of California and assumed administration and operation commencing on July 1, 1998. The initial term of the Interagency Transfer Agreement was for three years beginning July 1, 1998, and was extended for three additional years effective July 1, 2001. In 2004, State legislation was enacted that eliminated the sunset date of the Interagency Transfer Agreement, which now exists indefinitely.

The governing board of Capitol Corridor consists of six members from the District and two members from each of the five other Agencies. Neither the District nor the other Agencies are responsible for any debt, liabilities and obligations of Capitol Corridor and the District would not be entitled to any of Capitol Corridor's net assets should it terminate.

The District charged Capitol Corridor a total of $3,909,000 for marketing and administrative services during 2013 and $4,112,000 during 2012. In addition, Capitol Corridor reimburses the District for its advances for capital project expenditures and other operating expenses. Reimbursements for expenses incurred by the District on behalf of and in providing services to Capitol Corridor are netted against the corresponding expense in the statements of revenues, expenses and changes in net position. Unreimbursed expenses and advances for capital project costs from Capitol Corridor amount to $8,503,000 and $2,880,000 as of June 30, 2013 and 2012, respectively. All unreimbursed expenses and advances are included as current receivables and other assets in the statements of net position. As the District has no ownership involvement or ongoing financial interest or responsibility in Capitol Corridor, its financial statements include only amounts related to the services and advances it provides to Capitol Corridor.

East Bay Paratransit Consortium

In 1994, the District and the Alameda-Contra Costa Transit District (AC Transit) executed an agreement establishing the East Bay Paratransit Consortium (the Consortium). The purpose of the Consortium is to enable the District and AC Transit to jointly provide paratransit services in the overlapping service area of the District and AC Transit. Revenues and expenditures for the Consortium are split 31% and 69% between the District and AC Transit, respectively, except the program coordinator's expenses, which are split 50/50 starting in 2011. The District's financial statements reflect its portion of revenues and expenditures as operating activities. The District supported the project primarily through its own operating funds, with some financial assistance from Alameda County Measure B funds and from the Contra Costa Transportation Authority Measure J funds (Note 9). The District has no equity interest in the Consortium.

Pleasant Hill BART Station Leasing Authority

In July 2004, the District, the County of Contra Costa (County) and the Contra Costa County Redevelopment Agency (Agency) entered into a Joint Exercise of Powers Agreement (JPA Agreement) to create the Pleasant Hill BART Station Leasing Authority (Pleasant Hill Authority). In 2012, the Agency was dissolved by California Assembly Bill ABx1 26, and the Pleasant Hill Authority now consists of the

District and Contra Costa County. The Pleasant Hill Authority was created as a means of accomplishing the cooperation and coordination among the three agencies to provide for the development of a transit center located in BART's Pleasant Hill station, which will include residential rental and retail units. The Pleasant Hill Authority leased for a 99-year term expiring on May 14, 2105, a portion of the property owned by BART adjacent to the Pleasant Hill BART station as the transit center site.

On June 30, 2009, the District received as ground lease payments for the full term of the lease, a cash base rent of $99 and a noncash base rent in the form of a newly constructed parking structure located at the Pleasant Hill BART station. The District accepted the completion of the new parking structure, and became its new owner, effective June 30, 2009. The new parking structure was recorded as a capital asset at a value of $51,236,000, which is its final construction cost as reported by its developer, and with a credit to deferred revenue.

The Pleasant Hill Authority is a public entity separate from any member and as such its debts, liabilities and obligations shall not be the debts, liabilities and obligations of any of the members. The governing body of the Pleasant Hill Authority is a Board of Directors consisting of four persons – two from the County and the District.

15. Commitments and Contingencies

Litigation

The District is involved in various lawsuits, claims and disputes, which for the most part are normal to the District's operations. It is the opinion of the District's management that the costs that might be incurred in the disposition of these matters, if any, would not materially affect the District's financial position.

Power Purchases

The District purchases electrical power for self-consumption at multiple points of delivery such as Traction Power, Passenger Station Power and Miscellaneous Power from the Northern California Power Agency (NCPA). Power purchase contracts with the NCPA are in place through December 31, 2017, with a total remaining contract value of $48,544,000 as of June 30, 2013.

Lease Commitments

The District leases certain facilities under operating leases with original terms ranging from one to fifty years with options to renew.

Future minimum rental payments under noncancelable operating leases with initial or remaining lease terms of over one year at June 30, 2013 are as follows (dollar amounts in thousands):

Year ending June 30:	Operating Leases
2014	$ 11,932
2015	11,953
2016	12,098
2017	12,098
2018	12,333
2019-2023	44,318
2024-2028	12,500
2029-2033	12,500
2034-2038	12,500
2039-2043	12,500
2044-2048	12,500
2049-2053	12,292
Total minimum rental payments	$ 179,524

Rent expenses under all operating leases were $11,233,000 and $11,314,000 for the years ended June 30, 2013 and 2012, respectively.

Fruitvale Development Corp.
On October 1, 2001, the District entered into a ground lease agreement with Fruitvale Development Corporation (FDC) pertaining to 1.8 acres of land for the purpose of constructing thereon portions of a mixed-use development project commonly known as the Fruitvale Transit Village, which was planned to consist of approximately 250,000 square feet of commercial, community service and residential improvements. The lease agreement became effective December 9, 2003 and continues through January 31, 2077.

The terms of the lease require FDC to pay the District a Base Rent and a Percentage Rent. The Base Rent is a fixed amount determined at the inception of the lease subject to periodic CPI adjustments. Percentage Rent is calculated equal to 15% of annual net revenues, as defined in the ground lease agreement.

The District provided FDC a Rent Credit with an initial amount of $7,247,000, to acknowledge its assistance in obtaining grants for the construction of a Replacement BART Commuter Parking Garage near the Fruitvale Transit Village. The initial Rent Credit earned interest on the outstanding balance at simple interest based on the prime rate and can only be applied to satisfy the Base Rent.

In October 2010, there was a second amendment to the ground lease agreement, which recalculated the initial Rent Credit available to FDC as related to the replacement parking. The amount of the Replacement Parking Rent Credit was revised to $4,642,000, after a payment of $5,500,000 coming from the proceeds of the sale of land at the Fruitvale BART Station to the City of Oakland Redevelopment

Agency. The second amendment also stated that no interest shall accrue on the revised Replacement Parking Rent Credit and that beginning on December 1, 2003 and continuing throughout the term of the ground lease, base rent shall be subtracted from the Replacement Parking Rent Credit balance, until there is no longer a positive Replacement Parking Rent Credit. The offset base rent for fiscal years 2013 and 2012 amounted to $158,000 each year. The remaining balance in the Replacement Parking Rent Credit was $3,450,000 as of June 30, 2013 ($3,608,000 as of June 30, 2012).

Based on the agreement, FDC shall not be under any obligation to make any cash payment to the District for base rent at any time that the Replacement Parking Rent Credit still has a positive balance.

16. Subsequent Event

2013 General Obligation Bonds, Series C

On November 21, 2013, the District issued the General Obligation Bonds, 2013 Series C (the 2013 Series C Bonds) with a principal amount of $240,000,000. The 2013 Series C Bonds are general obligations of the District, payable from and secured solely by ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except for certain personal property which is taxable at limited rates) levied in Alameda and Contra Costa Counties and the City and County of San Francisco. The 2013 Series C Bonds constitute a portion of the remaining authorized but not issued amount of $480,000,000 of general obligation bonds of the District duly authorized amount of $980,000,000 by a ballot measure on November 2, 2004. The 2013 Series C Bonds constitute the third issue of general obligation bonds being issued pursuant to the Measure AA authorization to provide financing for earthquake safety improvements to District facilities in the Three District Counties, including strengthening tunnels, bridges, overhead tracks, the underwater Transbay Tube and the Berkeley Hills Tunnel.

Employees' Retirement Benefits
Schedules of Funding Progress
(dollar amounts in thousands)

Miscellaneous Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (%)	Annual Covered Payroll	UAAL as a Percentage of Payroll (%)
6/30/10	$ 1,575,249	$ 1,462,840	$ 112,409	92.9	$ 219,269	51.3
6/30/11	1,661,566	1,530,454	131,112	92.1	219,833	59.6
6/30/12	1,728,926	1,581,046	147,880	91.4	226,128	65.4

Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (%)	Annual Covered Payroll	UAAL as a Percentage of Payroll (%)
6/30/10	$ 197,342	$ 148,970	$ 48,372	75.5	$ 17,601	274.8
6/30/11	213,592	157,704	55,888	73.8	18,864	296.3
6/30/12	225,612	166,268	59,344	73.7	17,406	340.9

Other Postemployment Benefits
Schedules of Funding Progress
(dollar amounts in thousands)

Retiree Medical Benefits

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (%)	Covered Payroll	UAAL as a Percentage of Covered Payroll (%)
6/30/10	$ 347,058	$ 88,456	$ 258,602	25.5	$ 236,436	109.38
6/30/11	376,063	120,103	255,960	31.9	240,465	106.44
6/30/12	328,571	138,933	189,638	42.3	240,465	78.86

Additional OPEB

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (%)	Covered Payroll	UAAL as a Percentage of Covered Payroll (%)
6/30/10	$ 25,305	$ -	$ 25,305	-	$ 236,436	10.70
6/30/11	25,919	-	25,919	-	240,465	10.78
6/30/12	33,050	-	33,050	-	240,465	13.74

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