SAN FRANCISCO BAY AREA
RAPID TRANSIT DISTRICT

Annual Financial Report

For the Years Ended June 30, 2014 and 2013

MGO Certified Public Accountants.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
ANNUAL FINANCIAL REPORT
For the Years Ended June 30, 2014 and 2013

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MGO Certified Public Accountants.

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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, 2014 and 2013, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the District as of June 30, 2014 and 2013, 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, 2012, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

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 30, 2014 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 30, 2014

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, 2014 and 2013. 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 governance 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 2014, 2013 and 2012 is as follows (dollar amounts in thousands):

	2014	2013 (Restated)	2012 (Restated)
Operating revenues	$ 463,160	$ 443,274	$ 401,855
Operating expenses, net	(718,952)	(712,485)	(667,628)
Operating loss	(255,792)	(269,211)	(265,773)
Nonoperating revenues, net	282,507	246,446	237,875
Capital contributions	326,690	419,852	355,462
Special item - settlement of loans	88,500	-	-
Change in net position	441,905	397,087	327,564
Net position, beginning of year as restated	5,767,598	5,370,511	5,042,947
Net position, end of year	$ 6,209,503	$ 5,767,598	$ 5,370,511

Operating Revenues

In fiscal year 2014, operating revenues increased by $19,886,000 primarily due to (1) an increase of $9,683,000 in passenger fares, despite a slight decrease of 0.80% in average weekday ridership caused by the labor strike, due to higher net average fares and longer trips; average weekday ridership dipped slightly to 389,000 in fiscal 2014 compared to 392,000 in fiscal year 2013; (2) an increase of $4,312,000 due to higher parking rates implemented effective in January 2014 at several stations; (3) an increase in ground lease revenue of $4,798,000 primarily from recognizing ground lease prepayments received for the West Dublin Station due to the reassignment of the original ground lease to a new lessee; and 4) increase in advertising revenue of $497,000 primarily from the increase in minimum guaranteed amount received by the District in fiscal year 2014, per poster advertising franchise agreement.

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.

Operating Expenses, Net

In fiscal year 2014, operating expenses, net, increased by $6,467,000, primarily due to (1) an increase of $10,618,000 in employees' salaries and benefits, which were attributable to (a) an increase of $2,249,000 in regular wages, which is up only slightly since the expected wage increase were offset by non-payment of wages during the strike to represented non-safety employees; (b) overtime increase by $4,271,000 partly due to the strike; (c) provision in the new labor contract for additional qualified retirement contribution increase operating expense by $3,208,000; (d) medical health insurance premium increase by 10.6% or $5,072,000; (e) Employer portion of PERS contribution was higher by $1,193,000 due to increase in contribution rate for both the miscellaneous and safety group from 11.736% (41.566% for safety) in fiscal year 2013 to 12.269% (42.885% for safety) in fiscal 2014; (f) decrease of $1,341,000 in the District's reimbursement to employees for PERS employee contribution due to new contract provision that requires employees to contribute 1% of their PERS eligible wages on the first year of the labor contract; and (g) decrease of $4,034,000 since there were no negotiated lump sum wage payment in fiscal year 2014; (2) an increase of $1,126,000 in bus service cost due to the strike; (3) an increase of $2,178,000 in depreciation expense as more assets were put into service; and offset by (4) $7,934,000 reduction in workers compensation as the latest actuarial report available as of June 30, 2014 did not result in a substantial increase in liability.

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

Nonoperating Revenues, Net

In fiscal year 2014, nonoperating revenues, net, increased by $36,061,000 principally from (1) sales tax revenue which grew by 6% or $12,588,000 as the economy in the San Francisco Bay Area continues to thrive; (2) $18,702,000 increase in earmarked property tax revenue for the payment of the General Obligation Bonds; (3) a decrease in interest expense of $2,802,000 primarily from the full payment of the QTE lease/leaseback obligation in FY 2013, partially offset by increase in interest expense from the issuance of sales tax revenue bonds in October 2012 and new General Obligation Bonds issued in fiscal year 2014; (4) a decrease in investment income of $2,291,000 primarily due to the usage of the deposits for the lease/leaseback to payoff the lease/leaseback obligations; (5) an increase of $2,716,000 in State Transit Assistance received in fiscal year 2014 offset by $2,346,000 decrease in other federal operating assistance; and (6) higher revenue in fiscal year 2014 due to the recognition of $4,675,000 loss from early termination of lease/leaseback in fiscal year 2013.

In fiscal year 2013, nonoperating revenues, net, increased by $8,571,000 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 $5,855,000 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.

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 2014, revenue from capital contributions decreased by $93,162,000 principally from (1) a net decrease of $44,059,000 in grants revenue recognized in fiscal year 2013 from the Federal Transit Administration associated with the procurement of rail cars without corresponding grants earned in fiscal 2014; (2) a decrease of $80,426,000 in grants received from MTC associated with reductions in funding for the rail car procurement, a non-recurring funding, and the Oakland Airport Connector due to full utilization of grant amounts received for the project as it gets near towards completion; (3) a decrease of $3,078,000 in contribution from the Santa Clara Valley Transportation Authority "VTA" for the Warm Springs Extension; (4) a decrease of $2,322,000 in Measure J funds received for the eBART Project; (5) a decrease of $3,295,000 in contribution from the Port of Oakland for the Oakland Airport Connector Project; and offset by (6) a net increase of $53,899,000 in funds earned from the State of California primarily from the funding received for the rail car procurement project.

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.

The major additions in fiscal years 2014 and 2013 to capital projects are detailed on page 10.

Special Item

The special item of $88,500,000 in fiscal year 2014 refers to the principal balances of the construction loans from San Mateo County Transit District (SamTrans) in the amount of $72,000,000 and MTC in the amount of $16,500,000, which were extinguished upon the termination of the 1999 Memorandum of Understanding between the District, SamTrans and MTC.

There were 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, 2014, 2013 and 2012 is as follows (dollar amounts in thousands):

	2014	2013 (Restated)	2012 (Restated)
Current assets	$ 1,115,063	$ 1,101,538	$ 999,970
Noncurrent assets - capital assets, net	6,894,032	6,519,471	6,077,309
Noncurrent assets - other	198,513	49,022	123,233
Total assets	8,207,608	7,670,031	7,200,512
Deferred outflow of resources	19,434	20,490	16,165
Current liabilities	287,053	352,075	385,592
Noncurrent liabilities	1,730,486	1,570,848	1,460,574
Total liabilities	2,017,539	1,922,923	1,846,166
Net position			
Net investment in capital assets	5,689,954	5,290,181	5,058,253
Restricted	237,694	252,613	159,443
Unrestricted	281,855	224,804	152,815
Total net position	$ 6,209,503	$ 5,767,598	$ 5,370,511

Current Assets

In fiscal year 2014 current assets increased by $13,525,000 primarily from (1) an increase of $119,293,000 from portion of the proceeds deposited in restricted cash equivalent and current investments from proceeds of the 2013 General Obligation Bonds; (2) a net increase of $143,373,000 in unrestricted cash, cash equivalent and current investments from collections of grants receivable; (3) an increase of $31,270,000 in unrestricted and restricted cash and current investment due to timing of payment of vendor invoices; (4) an increase of $967,000 in accrued property tax receivable; (5) an increase of $1,563,000 in materials and supplies inventory due to timing in the usage of supplies used for repairs and maintenance; and offset by (6) a decrease of $52,791,000 from payment of project expenses from the proceeds of the 2012 Sales Tax Revenue Bonds, (7) a decrease of $50,454,000 for payments of seismic related project expenses funded by the General Obligation Bonds; (8) a decrease of $143,373,000 in capital grants receivable; (9) a reduction of $6,348,000 from receivables from Capitol Corridor, mostly for reimbursement for advances for capital project expenses; and (10) a decrease of $30,664,000 in restricted cash and cash equivalent due to utilization of advances received in prior years from proceeds from Proposition 1B funds.

In fiscal year 2013, current assets increased by $101,568,000 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).

Noncurrent Assets - Other

In fiscal year 2014, noncurrent assets – other increased by $149,491,000 primarily from the following: (1) an increase of $148,058,000 in restricted investments from portion of the proceeds from the 2013 General Obligation Bonds issued in November 2013; and (2) an increase of $1,214,000 in property tax receivable for debt service of the General Obligation Bonds.

In fiscal year 2013, noncurrent assets – other showed a decrease of $74,211,000 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 decrease of $9,685,000 in previously deferred debt issuance costs that were reclassified to expense as required by GASB 65, which was implemented in fiscal year 2014; (3) a decrease of $4,403,000 in investments used to defease a portion of the 2002 Premium Fare Bonds; and offset by (4) an increase of $5,653,000 in receivables from Capitol Corridor mainly to cover advances for capital expenditures.

Current Liabilities

In fiscal year 2014, current liabilities decreased by $65,022,000 primarily attributable to (1) a decrease of $49,573,000 in payables to vendors and contractors due to the timing of receiving and paying their invoices; (2) an increase of $3,860,000 in payables to employees due to timing paying the payroll at the end of the fiscal year and in the remittances of payroll taxes and benefits; (3) a decrease of $2,959,000 in the accruals of post- employment benefits estimated to be paid in the following fiscal year; (4) an increase of $4,061,000 in interest payable on long term debt primarily associated with the issuance of the 2013 General Obligation Bonds; (5) reduction of $3,780,000 for sales tax revenue bond obligations due to timing of principal payments required; (6) increase of $14,455,000 in principal payment required for the General Obligation Bonds associated with the new bonds issued in November 2013; (7) $5,000,000 full settlement of construction loan from MTC in fiscal year 2013, which reduced the liability in fiscal year 2014; (8) an increase of $2,783,000 in current reserves required for workers compensation and general liability insurance; and (9) decrease of $30,501,000 in the current portion of advances from grantors based on projected fund utilization for fiscal year 2015.

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 9 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.

Noncurrent Liabilities

In fiscal year 2014, non-current liabilities increased by $159,638,000 primarily from (1) an increase of $3,073,000 in payables to employees due to timing in the utilization of accrued benefits; (2) an increase of $5,116,000 in non-current portion of accruals for unfunded post-employment benefits (3) a decrease of $88,500,000 due to extinguishment of loans from SamTrans ($72,000,000) and MTC ($16,500,000) arising from the termination of the 1999 Memorandum of Understanding between the District, SamTrans and MTC; (4) increase of $240,000,000 in principal balance of General Obligation Bonds due to new bonds issued in fiscal year 2014; (5) an increase of $27,113,000, net of amortization, on premiums from issuance of bond obligation due to the newly issued General Obligation Bonds; (6) a decrease of $25,875,000 in outstanding bond obligations from payments made in fiscal year 2014; (7) a decrease of $11,700,000 in long-term, portion of bond obligations; (8) an increase of $13,776,000 in the non-current portion of advances from grantors; and (9) a decrease of $4,695,000 for portion of deferred ground lease recognized as income due to reassignment of ground lease by the original lessor to a new lessee, offset by an increase of $1,100,000 for prepayment received on the new ground lease.

In fiscal year 2013, non-current liabilities increased by $110,274,000 primarily from (1) a net increase in long-term debt of $12,172,000 due to (a) an increase of $64,956,000 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; and offset by (5) a decrease of $6,687,000 in previously deferred gain due to the termination of the lease/leaseback transactions.

Capital Assets

Details of the capital assets, net of accumulated depreciation, as of June 30, 2014, 2013 and 2012 are as follows (dollar amounts in thousands):

	2014	2013 (Restated)	2012
Land	$ 559,222	$ 549,685	$ 544,874
Stations, track, structures and improvements	3,158,779	3,087,961	3,069,628
Buildings	8,336	8,336	8,470
Revenue transit vehicles	175,086	197,933	266,561
Other	441,783	430,852	353,679
Construction in progress	2,550,826	2,244,704	1,834,097
Total capital assets	$ 6,894,032	$ 6,519,471	$ 6,077,309

The District's capital assets before depreciation and retirements showed a net increase of $522,503,000 in 2014 and $588,301,000 in 2013. There were no major retirements in fiscal 2014 and 2013. Major additions in capital assets included capital expenditures for the acquisition and/or major improvements related to the following assets (dollar amounts in thousands):

	2014	2013
Core system and extensions	$ 337,869	$ 422,181
Train control equipment	12,833	18,843
Revenue transit vehicles	124,059	110,326
Automatic fare collections and other equipment	25,395	33,703

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 $2,146,016,000 at June 30, 2014 and $1,694,140,000 at June 30, 2013.

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, 2014, 2013 and 2012 are as follows (dollar amounts in thousands):

	2014	2013	2012
Bonds payable from and collateralized by a pledge of sales tax revenues	$ 718,895	$ 742,355	$ 626,455
Construction loans payable from the net operating surplus of the SFO Extension	-	88,500	88,500
Construction loan for temporary cash flow requirements of the SFO Extension	-	5,000	21,000
Lease/leaseback obligation, including accumulated accretion, for rail traffic control equipment	-	-	61,024
Bonds payable from the premium fare imposed on the passengers who board on or depart from the San Francisco International Airport Station	-	-	52,570
General obligation bonds	648,275	410,690	412,540
Total long-term debt	$ 1,367,170	$ 1,246,545	$ 1,262,089

Total long-term debt in fiscal year 2014 increased by $120,625,000 from a combination of the following transactions: (1) a decrease of $23,460,000 due to schedule principal payments on Sales Tax Revenue Bonds; (2) a decrease of $2,415,000 for scheduled principal payments on the General Obligation Bonds; (3) a decrease of $5,000,000 for the final payment of construction loan for temporary cash flow from MTC; (4) a decrease of $88,500,000 from extinguishment of construction loans from SamTrans ($72,000,000) and MTC ($16,500,000) due to the termination of the 1999 Memorandum of Understanding between the District, SamTrans and MTC; and offset by (5) increase of $240,000,000 from the issuance of new General Obligation Bonds in fiscal year 2014.

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).

Economic Factors and Next Year's Budgets

On June 12, 2014, The District's Board of Directors adopted a balanced operating budget of $854,527,397 and a capital budget of $711,530,567 for the fiscal year 2015.

The fiscal year 2015 budget for operating sources is $56,947,019 higher than the fiscal year 2014 budget, with strong ridership and sales tax growth the main factors. Through the first five months of the year total system ridership has exceeded the budget by over 5%. 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 $45,000,000 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 an estimated $19 million in additional revenue generated from 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 2015 operating budget also included $42,978,040 for other state of good repair needs, such as the continuing program to replace floors in the current fleet, a lighting retrofit project 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 BART Asset Management Plan Program has identified a wide variety of system infrastructure funding needs.

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, 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.

BART opened a new extension to the Oakland International Airport this year, with regular passenger service beginning November 22, 2014. The service is provided through a fast, frequent people mover connection from the BART system to the airport.

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, 2014 and 2013
(dollar amounts in thousands)

	2014	2013 (Restated)
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 293,447	$ 123,682
Investments	624	569
Government receivables	248,837	392,210
Receivables and other assets	18,044	28,649
Materials and supplies	28,129	26,566
Total unrestricted current assets	589,081	571,676
Restricted assets		
Cash and cash equivalents	466,272	429,578
Investments	59,710	100,284
Total restricted current assets	525,982	529,862
Total current assets	1,115,063	1,101,538
Noncurrent assets		
Capital assets		
Nondepreciable	3,110,048	2,793,967
Depreciable, net of accumulated depreciation	3,783,984	3,725,504
Unrestricted assets		
Investments	22,704	22,620
Receivables and other assets	267	334
Restricted assets		
Investments	162,277	14,202
Receivables and other assets	13,265	11,866
Total noncurrent assets	7,092,545	6,568,493
Total assets	8,207,608	7,670,031
Deferred Outflows of Resources		
Losses on refundings of debt	19,434	20,490
Liabilities		
Current liabilities		
Accounts payable and other liabilities	187,731	232,892
Current portion of long-term debt	37,575	30,875
Self-insurance liabilities	18,067	15,141
Unearned revenue	43,680	73,167
Total current liabilities	287,053	352,075
Noncurrent liabilities		
Accounts payable and other liabilities	80,807	72,170
Long-term debt, net of current portion	1,416,356	1,275,319
Self-insurance liabilities, net of current portion	34,093	34,007
Unearned revenue	199,230	189,352
Total noncurrent liabilities	1,730,486	1,570,848
Total liabilities	2,017,539	1,922,923
Net position		
Net investment in capital assets	5,689,954	5,290,181
Restricted for debt service and other liabilities	237,694	252,613
Unrestricted	281,855	224,804
Total net position	$ 6,209,503	$ 5,767,598

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

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SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013
(dollar amounts in thousands)

	2014	2013 (Restated)
Operating revenues		
Fares	$ 416,573	$ 406,890
Other	46,587	36,384
Total operating revenues	463,160	443,274
Operating expenses		
Transportation	174,958	177,699
Maintenance	226,227	228,766
Police services	56,308	52,303
Construction and engineering	19,539	19,021
General and administrative	147,031	143,285
Depreciation	147,652	145,474
Total operating expenses	771,715	766,548
Less - capitalized costs	(52,763)	(54,063)
Net operating expenses	718,952	712,485
Operating loss	(255,792)	(269,211)
Nonoperating revenues (expenses)		
Transactions and use tax - sales tax	221,149	208,561
Property tax	72,251	53,181
Operating financial assistance	96,312	47,728
Contribution for BART car replacement funding exchange program	(72,000)	(23,980)
Investment income	37	2,328
Interest expense	(34,590)	(37,392)
Other expense, net	(652)	(3,980)
Total nonoperating revenues, net	282,507	246,446
Change in net position before capital contributions and special item	26,715	(22,765)
Capital contributions	326,690	419,852
Special item - settlement of loans	88,500	-
Change in net position	441,905	397,087
Net position, beginning of year, as previously reported		5,390,042
Restatement for adoption of GASB 65		(19,531)
Net position, beginning of the year, as restated	5,767,598	5,370,511
Net position, end of year	$ 6,209,503	$ 5,767,598

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, 2014 and 2013
(dollar amounts in thousands)

	2014	2013
Cash flows from operating activities		
Receipts from customers	$ 440,423	$ 394,833
Payments to suppliers	(185,662)	(166,782)
Payments to employees	(399,628)	(390,717)
Other operating cash receipts	45,703	28,834
Net cash used in operating activities	(99,164)	(133,832)
Cash flows from noncapital financing activities		
Transactions and use tax (sales tax) received	168,042	154,492
Property tax received	32,301	31,586
Financial assistance received	97,043	49,889
Net cash provided by noncapital financing activities	297,386	235,967
Cash flows from capital and related financing activities		
Transactions and use tax (sales tax) received	53,107	54,069
Property tax received	38,983	20,767
Capital grants received	429,761	484,024
Expenditures for facilities, property and equipment	(542,257)	(591,916)
Principal paid on long-term debt	(30,875)	(196,080)
Payments of long-term debt issuance and service costs	(652)	(1,054)
Proceeds from Issuance of Sales Tax Revenue Bonds	-	264,999
Proceeds from Issuance of General Obligation Bonds	270,840	-
Interest paid on long-term debt	(27,858)	(35,883)
Principal payments received from notes receivable	-	1,340
Contribution for BART car replacement funding exchange program	(75,533)	(46,387)
Cash paid on early termination of lease/leaseback obligation	-	(25,408)
Deposit refunded	(126)	(302)
Net cash used in capital and related financing activities	115,390	(71,831)
Cash flows from investing activities		
Proceeds from sale and maturity of investments	99,999	30,087
Purchase of investments	(208,704)	(100,199)
Investment income	1,552	1,129
Net cash provided by (used in) investing activities	(107,153)	(68,983)
Net change in cash and cash equivalents	206,459	(38,681)
Cash and cash equivalents, beginning of year	553,260	591,941
Cash and cash equivalents, end of year	$ 759,719	$ 553,260
Reconciliation of cash and cash equivalents to the Statements of Net Position		
Current, unrestricted assets - cash and cash equivalents	$ 293,447	$ 123,682
Current, restricted assets - cash and cash equivalents	466,272	429,578
Total cash and cash equivalents	$ 759,719	$ 553,260

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, 2014 and 2013
(dollar amounts in thousands)

	2014	2013
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (255,792)	$ (269,211)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	147,652	145,474
Amortization of deferred settlement costs	213	147
Net effect of changes in		
Receivables and other assets	33,711	(18,020)
Materials and supplies	(1,563)	266
Accounts payable and other liabilities	(20,356)	(5,182)
Self-insurance liabilities	3,012	11,756
Unearned revenue	(6,041)	938
Net cash used in operating activities	$ (99,164)	$ (133,832)
Noncash transactions		
Capital assets acquired with a liability at year-end	$ 50,773	$ 70,527
Lease/leaseback obligation additions	-	1,960
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
Decrease in fair value of investments	1,515	2,382
Amortization of long-term debt premium, discount and issue costs	(3,728)	(3,614)
Addition of loss on early debt retirement	-	(9,160)
Amortization of loss on early debt retirement	1,056	998
Amortization of gain on lease/leaseback transaction	-	2,189
Amortization of ground lease	534	534
Special item - settlement of loans	88,500	-

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, 2014 and 2013
(dollar amounts in thousands)

	2014	2013
Assets		
Cash and cash equivalents	$ 1,101	$ 910
Receivables and other assets	797	464
Pending trades receivable	7,650	16,176
Investments		
Domestic common stocks	75,645	59,767
U.S. Treasury obligations	40,855	24,201
Money market mutual funds	5,502	15,542
Mutual funds - equity	53,772	42,782
Corporate obligations	19,630	24,050
Foreign stocks	1,946	2,379
Foreign obligations	710	976
Total investments	198,060	169,697
Total assets	207,608	187,247
Liabilities		
Accounts payable	141	94
Pending trades payable	5,286	21,514
Total liabilities	5,427	21,608
Net position held in trust for retiree health benefits	$ 202,181	$ 165,639

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, 2014 and 2013
(dollar amounts in thousands)

	2014	2013
Additions		
Employer contributions		
Cash contributions	$ 27,031	$ 10,393
Pay-as-you-go contributions	-	15,463
Total employer contributions	27,031	25,856
Investment income (expense)		
Interest income	4,015	3,600
Realized gain	11,026	4,655
Net appreciation in fair value of investments	11,322	8,386
Investment expense	(405)	(287)
Net investment income	25,958	16,354
Total additions	52,989	42,210
Deductions		
Pay-as-you-go benefit payments	16,337	15,463
Legal fees	9	1
Audit fees	18	18
Insurance expense	23	22
Administrative fees	60	-
Total deductions	16,447	15,504
Increase in trust net position	36,542	26,706
Net position held in trust for retiree health benefits		
Beginning of year	165,639	138,933
End of year	$ 202,181	$ 165,639

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

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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.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

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) and are reported as Government receivables on the Statement of Net Position.

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 Discounts, Premiums and Losses on Refundings

The bond discounts, premiums and losses 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 losses on refundings, which are reported as deferred outflows of resources, are presented as a reduction of the face amount of bonds payable.

Capital Assets

Capital assets are stated at cost or at fair value of donated assets, 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 $22,350,000 in fiscal year 2014 and $17,900,000 in fiscal year 2013.

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 15).

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Compensated Absences

Compensated absences are reported and accrued as a liability in the period incurred. Compensated absences have a total balance of $59,388,000 as of June 30, 2014 and $56,865,000 as of June 30, 2013 and are shown in the statements of net position in accounts payable and other liabilities (see Note 5) as follows (dollar amounts in thousands):

	2014	2013
Current liabilities	$ 19,493	$ 20,043
Noncurrent liabilities	39,895	36,822
Total	$ 59,388	$ 56,865

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.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

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, 2007 and 2013 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 $52,763,000 and $54,063,000 were capitalized during the years ended June 30, 2014 and 2013, 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.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements Adopted

In 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This GASB statement recognized, as outflow of resources or inflow of resources, certain items that were previously reported as assets or liabilities. As a result, the District restated the beginning net position of as of July 1, 2012 in the amount of $19,531,000 to write off unamortized bond issue costs that were previously reported as an asset as well as those that were included in the unamortized losses on refundings previously reported as a contra liability. The remaining unamortized losses on refundings of $20,490,000 were reclassified from a contra liability to deferred outflows of resources. Lastly, the District also restated fiscal year 2013 interest expense by $712,000 and construction in progress in the amount of $422,000 due to the removal of previously amortized bond issuance costs.

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. As of July 1, 2012, the District adopted this statement, which did not have a significant impact to 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 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.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. Application of this statement is effective for the District's fiscal year ending June 30, 2015.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability in its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. 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):

	2014			2013		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Current assets						
Cash and cash equivalents	$ 293,447	$ 466,272	$ 759,719	$ 123,682	$ 429,578	$ 553,260
Investments	624	59,710	60,334	569	100,284	100,853
Noncurrent assets						
Investments	22,704	162,277	184,981	22,620	14,202	36,822
Total	$ 316,775	$ 688,259	$ 1,005,034	$ 146,871	$ 544,064	$ 690,935

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.

2. Cash, Cash Equivalents and Investments (Continued)

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

2. Cash, Cash Equivalents and Investments (Continued)

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, 2014 and 2013 is as follows (dollar amounts in thousands):

	2014	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 - 5	6 - 10
Money market mutual funds*	$ 146,302	$ 146,302	$ -	$ -
U.S. government agencies	188,057	39,999	148,058	-
Commercial paper	59,579	59,579	-	-
Repurchase agreements	36,822	-	36,822	-
Total investments	430,760	$ 245,880	$ 184,880	$ -
Deposits with banks	569,642			
Certificate of Deposit	857			
Imprest funds	3,775			
Total cash and investments	$ 1,005,034			

	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			

* weighted-average maturity

2. Cash, Cash Equivalents and Investments (Continued)

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, 2014 and 2013 (dollar amounts in thousands):

	2014	Credit Ratings			
	Fair Value	AAA	AA	A	Not Rated
Money market mutual funds	$ 146,302	$ 138,123	$ -	$ 8,179	$ -
U.S. Government agencies	188,057	148,058	-	39,999	-
Commercial paper	59,579	-	-	59,579	-
Repurchase agreements	36,822	-	-	36,822	-
Total investments	430,760	$ 286,181	$ -	$ 144,579	$ -
Deposits with banks	569,642				
Certificate of deposit	857				
Imprest funds	3,775				
Total cash and investments	$ 1,005,034				

	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				
Imprest funds	2,539				
Total cash and investments	$ 690,935				

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 CGC Section 53601.7 requires that investments in one issuer do not exceed 5% of the entity's total portfolio at the time of purchase, 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 the time of purchase. At June 30, 2014 and 2013, the investments with Bayerische Landesbank Investment Repurchase Agreement amounted to $36,822,000, which exceeded 5% of the District's total investment portfolio at 8.5% and 13.4% respectively.

2. Cash, Cash Equivalents and Investments (Continued)

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.

2. Cash, Cash Equivalents and Investments (Continued)

A summary of investments by type of investments and by segmented time distribution as of June 30, 2014 and 2013 is as follows (dollar amounts in thousands):

	2014	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	$ 40,855	$ 24,690	$ 9,657	$ 4,268	$ 2,240
Money market mutual funds*	5,502	5,502	-	-	-
Corporate obligations	19,630	978	12,867	1,796	3,989
Foreign obligations	710	218	492	-	-
Investments subject to interest rate risk	66,697	$ 31,388	$ 23,016	$ 6,064	$ 6,229
Domestic common stocks	75,645				
Mutual funds- equity	53,772				
Foreign stocks	1,946				
Total investments	$ 198,060				

	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				

* weighted-average maturity

2. Cash, Cash Equivalents and Investments (Continued)

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, 2014 and 2013 (dollar amounts in thousands):

	2014 Fair Value	Credit Ratings AAA	AA	A	BBB	BB	Not Rated
U.S. Treasury obligations	$ 40,855	$ -	$ 40,855	$ -	$ -	$ -	$ -
Money market mutual funds	5,502	5,502	-	-	-	-	-
Corporate obligations	19,630	3,253	2,214	11,196	2,967	-	-
Foreign obligations	710	-	-	166	544	-	-
Investments subject to credit risk	66,697	$ 8,755	$ 43,069	$ 11,362	$ 3,511	$ -	$ -
Domestic common stocks	75,645						
Mutual funds - equity	53,772						
Foreign stocks	1,946						
Total investments	$ 198,060						

	2013 Fair Value	Credit Ratings 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	6,299	2,345	12,559	1,567	1,280	-
Foreign obligations	976	-	418	167	391	-	-
Investments subject to credit risk	64,769	$ 21,841	$ 26,964	$ 12,726	$ 1,958	$ 1,280	$ -
Domestic common stocks	59,767						
Mutual funds - equity	42,782						
Foreign stocks	2,379						
Total investments	$ 169,697						

2. Cash, Cash Equivalents and Investments (Continued)

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, 2014 and 2013 (dollar amounts in thousands):

	2014	2013 (Restated)
Interest receivable - other investments	$ 2	$ 2
Deferred charges	334	412
Deposit for power supply	10,960	10,774
Off-site ticket vendor receivable	3,318	3,315
Capitol Corridor Joint Powers Authority receivable (Note 15)	2,155	8,503
Property tax receivable	3,350	2,383
Prepaid expenses	3,986	9,638
Imprest deposits for self-insurance liabilities	1,192	1,063
Other	6,678	5,081
Allowance for doubtful accounts	(399)	(322)
Total receivables and other assets	$ 31,576	$ 40,849
Current, unrestricted portion	$ 18,044	$ 28,649
Noncurrent, unrestricted portion	267	334
Noncurrent, restricted portion	13,265	11,866
Total receivables and other assets, as presented in the basic financial statements	$ 31,576	$ 40,849

4. Capital Assets

Changes to capital assets during the year ended June 30, 2014 were as follows (dollar amounts in thousands):

	Lives (Years)	2013 (Restated)	Additions and Transfers	Retirements and Transfers	2014
Capital assets, not being depreciated					
Land	N/A	$ 549,685	$ 9,537	$ -	$ 559,222
Construction in progress	N/A	2,244,282	522,503	(215,959)	2,550,826
Total capital assets, not being depreciated		2,793,967	532,040	(215,959)	3,110,048
Capital assets, being depreciated					
Tangible Asset					
Stations, track, structures and improvements	80	4,081,399	125,150	-	4,206,549
Buildings	80	10,732	-	-	10,732
System-wide operation and control	20	598,338	9,789	(3)	608,124
Revenue transit vehicles	30	1,103,557	-	-	1,103,557
Service and miscellaneous equipment	3-20	264,100	30,206	(2,332)	291,974
Capitalized construction and start-up costs	30	98,305	-	-	98,305
Repairable property items	30	106,234	40,823	(492)	146,565
Intangible Asset					
Information systems	20	41,292	454	-	41,746
Total capital assets, being depreciated		6,303,957	206,422	(2,827)	6,507,552
Less accumulated depreciation		(2,578,453)	(147,652)	2,537	(2,723,568)
Total capital assets, being depreciated, net		3,725,504	58,770	(290)	3,783,984
Total capital assets, net		$ 6,519,471	$ 590,810	$ (216,249)	$ 6,894,032

4. Capital Assets (Continued)

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

	Lives (Years)	2012	Additions and Transfers (Restated)	Retirements and Transfers	2013 (Restated)
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	72,742	-	4,081,399
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	172,868	(139)	6,303,957
Less accumulated depreciation		(2,432,890)	(145,702)	139	(2,578,453)
Total capital assets, being depreciated, net		3,698,338	27,166	-	3,725,504
Total capital assets, net		$ 6,077,309	$ 621,136	$ (178,974)	$ 6,519,471

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 was completed and revenue operations began on November 22, 2014. Expected completion date for the WSX Extension is in December 2015 and the eBART Extension in calendar year 2018.

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $2,146,016,000 at June 30, 2014, and $1,694,140,000 in 2013.

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, 2014 and 2013 (dollar amounts in thousands):

	2014	2013
Payable to vendors and contractors	$ 94,912	$ 144,037
Employee salaries and benefits	25,524	21,664
Accrued compensated absences	59,388	56,865
Net OPEB obligation	59,378	57,222
Accrued interest payable	29,336	25,274
Liabilities at the end of year	268,538	305,062
Less noncurrent portion	(80,807)	(72,170)
Net current portion	$ 187,731	$ 232,892

6. Long-Term Debt

Long-term debt activity for the year ended June 30, 2014 is summarized as follows (dollar amounts in thousands):

	2013 (Restated)	Additions/ Accretion	Payments/ Amortization	2014
2005 Sales Tax Revenue Refunding Bonds	$ 272,455	$ -	$ (12,630)	$ 259,825
2006 Sales Tax Revenue Bonds	1,300	-	-	1,300
2006 Sales Tax Revenue Refunding Bonds	101,245	-	(2,190)	99,055
2010 Sales Tax Revenue Refunding Bonds	125,795	-	(1,530)	124,265
2012 Sales Tax Revenue Refunding Bonds	130,475	-	(3,330)	127,145
2012 Sales Tax Revenue Bonds	111,085	-	(3,780)	107,305
Construction Loans	93,500	-	(93,500)	-
2005 General Obligation Bonds	37,725	-	(980)	36,745
2007 General Obligation Bonds	372,965	-	(1,435)	371,530
2013 General Obligation Bonds	-	240,000	-	240,000
	1,246,545	240,000	(119,375)	1,367,170
Add (less):				
Original issue premiums and discounts, net	59,649	30,840	(3,728)	86,761
Long-term debt net of accumulated accretion and debt related items	1,306,194	$ 270,840	$ (123,103)	1,453,931
Less: current portion of long-term debt	(30,875)			(37,575)
Net long-term debt	$ 1,275,319			$ 1,416,356

6. Long-Term Debt (Continued)

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

	2012 (Restated)	Additions/ Accretion (Restated)	Payments/ Amortization	2013 (Restated)
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)	-
Original issue premiums and discounts, net	40,173	23,439	(3,963)	59,649
Long-term debt net of accumulated accretion and debt related items	1,302,262	$ 269,188	$ (265,256)	1,306,194
Less: current portion of long-term debt	(39,115)			(30,875)
Net long-term debt	$ 1,263,147			$ 1,275,319

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).

6. Long-Term Debt (Continued)

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, 2014, the 2005 Refunding Bonds consist of $170,705,000 in serial bonds due from 2015 to 2027 with interest rates ranging from 3.75% 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, 2014, 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, 2014, the 2006 Refunding Bonds consist of serial bonds amounting to $44,485,000 due from 2015 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, 2014, the 2010 Refunding Bonds consist of serial bonds amounting to $124,265,000 with interest rates ranging from 3.0% to 5.0%, with various maturity dates from 2015 to 2029.

6. Long-Term Debt (Continued)

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, 2014, the 2012 Series A Refunding Bonds consist of serial bonds amounting to $94,810,000 with interest rates ranging from 3.0% to 5.0% with various maturity dates from 2015 to 2033, and a term bond in the amount of $32,335,000 due in 2037. The refunding during fiscal year 2013 resulted in economic gain of $25,132,000 and cash flow savings of $35,819,000.

2012 Sales Tax Revenue 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, 2014, the 2012 Series B consist of serial bonds amounting to $21,280,000 with interest rates ranging from 0.755% to 2.677% with various maturity dates from 2016 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.

As of June 30, 2014, the balances of the District's obligations to SamTrans for $72,000,000 and MTC for $16,500,000 were extinguished after the District reevaluated the provisions of the Tri-Party Financial Agreement between the District, SamTrans, and MTC, which was in effect as of February 28, 2007. The remaining balance of the District's obligation with respect to the Project's temporary cash requirements of $5,000,000 was paid from the District's general fund in June 2014 (See Note 14).

6. Long-Term Debt (Continued)

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.

6. Long-Term Debt (Continued)

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, 2014, the 2005 GO Bonds consist of $17,130,000 in serial bonds due from 2015 to 2027 with interest ranging from 3.60% 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.

6. Long-Term Debt (Continued)

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, 2014, the 2007 GO Bonds consist of $107,080,000 in serial bonds due from 2015 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.

2013 General Obligation Bonds, Series C (the 2013 Series C GO Bonds)

On November 21, 2013, the District issued the General Obligation Bonds, 2013 Series C (the 2013 Series C GO Bonds) with a principal amount of $240,000,000. The 2013 Series C 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 2013 Series C GO Bonds. The 2013 Series C GO Bonds constitute the third issue of general obligation bonds 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.

At June 30, 2014, the 2013 Series C GO Bonds consist of $219,875,000 in serial bonds due from 2015 to 2034 with interest ranging from 2.0% to 5.00%, and term bonds totaling $20,125,000 due in 2037. The serial bonds maturing on or after August 1, 2024 are subject to redemption prior to their respective stated maturities, at the option of the District, from any source of available funds, as a whole or in part, on any date on or after August 1, 2023, at the principal amount called for redemption, without premium, plus accrued interest. The term bonds are also subject to mandatory sinking fund redemption on August 1 beginning 2034, at the principal amount, without premium, plus accrued interest.

After the issuance of the 2005, 2007, and 2013 GO Bonds, the remaining General Obligation Bonds that can be issued by the District as authorized under Measure AA is $240,000,000.

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.

6. Long-Term Debt (Continued)

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, 2014, $63,615,000 aggregate principal balance of the 2006 Series A Bonds are outstanding. These outstanding bonds were redeemed on July 1, 2014.

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, 2014, the District has recorded an estimated arbitrage liability amounting to $4,000 in 2014 and 2013, 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, 2014 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 $1,105,277,000 as of June 30, 2014 ($1,161,730,000 as of June 30, 2013), which is 10.69% in 2014 (11.32% in 2013) of the total projected sales tax revenues of $10,342,410,000 as of June 30, 2014 ($10,264,191,000 as of June 30, 2013). The total projected sales tax revenues covers the period from fiscal year 2015 through fiscal year 2043, which is the last scheduled bond principal payment. The pledged sales tax revenues recognized in fiscal year 2014 was $221,149,000 ($208,561,000 in fiscal year 2013) as against a total debt service payment of $53,090,000 in fiscal year 2014, and $54,053,000 in fiscal year 2013 (exclude $105,360,000 for the bonds refunded).

6. Long-Term Debt (Continued)

Debt Repayments

The following is a schedule of long-term debt principal and interest payments required as of June 30, 2014 (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
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	17,455	8,872	-	-	1,520	3,880
2020-2024	33,535	38,758	-	-	18,950	17,135
2025-2029	101,805	21,849	-	-	23,395	12,588
2030-2034	36,975	6,003	-	-	28,930	6,930
2035-2039	8,540	-	-	-	20,550	898
2040-2044	-	-	-	-	-	-
	$ 259,825	$ 119,073	$ 1,300	$ 75	$ 99,055	$ 57,521

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
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	3,165	5,597	3,045	5,626	2,615	3,785
2020-2024	75,310	17,864	19,415	25,639	13,920	17,947
2025-2029	36,620	3,841	29,285	19,492	16,215	15,434
2030-2034	-	-	42,830	10,216	19,580	11,838
2035-2039	-	-	22,485	1,176	24,065	7,131
2040-2044	-	-	-	-	23,240	1,547
	$ 124,265	$ 50,859	$ 127,145	$ 85,675	$ 107,305	$ 73,177

6. Long-Term Debt (Continued)

Year ending June 30:	2005 General Obligation Bonds Principal	2005 General Obligation Bonds Interest	2007 General Obligation Bonds Principal	2007 General Obligation Bonds Interest	2013 General Obligation Bonds Principal	2013 General Obligation Bonds Interest	Total Principal	Total Interest
2015	$ 1,015	$ 1,701	$ 2,010	$ 18,103	$ 14,455	$ 10,448	$ 37,575	$ 62,360
2016	1,050	1,662	2,640	18,000	-	10,424	27,540	61,238
2017	1,090	1,621	3,315	17,870	-	10,424	29,555	60,004
2018	1,130	1,576	4,050	17,706	19,815	9,732	51,350	57,999
2019	1,175	1,530	4,840	17,510	18,050	9,026	51,865	55,826
2020-2024	6,750	6,677	38,350	82,603	76,460	33,834	282,690	240,457
2025-2029	8,610	4,752	68,545	68,844	50,525	20,181	335,000	166,981
2030-2034	10,820	2,442	111,260	45,770	40,570	8,945	290,965	92,144
2035-2039	5,105	152	136,520	11,264	20,125	1,378	237,390	21,999
2040-2044	-	-	-	-	-	-	23,240	1,547
	$ 36,745	$ 22,113	$ 371,530	$ 297,670	$ 240,000	$ 114,392	$ 1,367,170	$ 820,555

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 $5,000,000 for any one occurrence. Claims in excess of self-insured retentions are covered up to a total of $145,000,000 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 June 30 and are subject to periodic adjustments as conditions warrant.

7. Risk Management (Continued)

The estimated liability for insurance claims at June 30, 2014 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, 2014 and 2013, the estimated amounts of these liabilities were $52,160,000 and $49,148,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal years are as follows (dollar amounts in thousands):

	2014	2013
Liabilities at beginning of year	$ 49,148	$ 37,392
Current year claims and changes in estimates	17,754	25,748
Payments of claims	(14,742)	(13,992)
Liabilities at the end of year	52,160	49,148
Less current portion	(18,067)	(15,141)
Net noncurrent portion	$ 34,093	$ 34,007

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, 2014 and 2013 are summarized as follows (dollar amounts in thousands):

	2014	2013
Total approved project costs	$ 1,628,029	$ 3,293,122
Cumulative amounts of project costs incurred and earned	$ 913,041	$ 1,482,164
Less: approved federal allocations received	(882,567)	(1,369,987)
Capital grants receivable - Federal	$ 30,474	$ 112,177

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 and 5337 Grants for $72,000,000 in fiscal year 2014 and Federal Section 5307 Grants for $23,980,000 in fiscal year 2013 to fund the District's preventive maintenance expenses. In fiscal year 2014, the District remitted to MTC $3,534,000 for fiscal year 2013 allocation on July 25, 2013 and $72,000,000 for fiscal year 2014 allocation between January – June 2014, 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.

8. Federal Capital Contributions and Operating Financial Assistance (Continued)

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 $201,345,000 as of June 30, 2014 and $125,528,000 as of June 30, 2013.

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 2014 or 2013. The District was awarded TDA capital allocation of $2,300,000 in fiscal year 2010 of which $0 was earned during fiscal year 2014 and $122,000 in fiscal year 2013. 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 $20,837,000 in fiscal year 2014 and $18,596,000 in fiscal year 2013, of which $20,738,000 was earned in fiscal year 2014 and $18,106,000 was earned in fiscal 2013. 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 $719,000 was earned during fiscal year 2014 and $100,000 was earned during fiscal year 2013.

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 2014, the District's revenues that relate to the Measure B funds were $1,763,000 ($1,714,000 in fiscal year 2013) for the annual assistance for paratransit operating funds and $70,000 ($243,000 in fiscal year 2013) 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.

9. State and Local Operating and Capital Financial Assistance (Continued)

As of June 30, 2014 and 2013, the balance of the reserve account is as follows (dollar amounts in thousands):

	2014	2013
Reserve account at beginning of year	$ 20,901	$ 19,369
Received/accrued	4,584	2,273
Add interest earnings	71	60
Total	25,556	21,702
Less: amount used to cover SFO Extension operating shortfall	(801)	(801)
Reserve account at end of year	$ 24,755	$ 20,901

In accordance with the Tri-Party Financial Agreement, the District recognized contributions in fiscal year 2014 of $2,329,000 from SamTrans ($2,273,000 in fiscal year 2013) and $2,255,000 from MTC ($0 in fiscal year 2013).

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.

9. State and Local Operating and Capital Financial Assistance (Continued)

The following schedules show the changes in activities related to the PTMISEA grant funds during the fiscal years 2014 and 2013 (dollar amounts in thousands):

2014	Grant Fund Balance at Beginning of Year	Grants Received	Project Costs Incurred	Grant Fund Balance at End of Year
eBART Extension	$ 16,646	$ 13,000 [3]	$ 10,610	$ 19,036
Ashby Elevator	261	-	(11)	272
Station Modernization	115,675	(12,856) [3]	5,480	97,339
Seismic Retrofit	(33)	-	178	(211) [2]
Oakland Airport Connector	106	-	160	(54) [2]
Warm Springs Extentsion	3,545	(144) [3]	2,309	1,092
Balboa West Side Entrance	82	-	82	-
Balboa Park Eastside	-	800 [4]	23	777
Berkeley Station Entrance	-	721 [4]	-	721
Access Improvements	6,001	(1,521) [4]	65	4,415
Station Signage[1]	2,043	-	460	1,583
Train Control	17,500	-	-	17,500
	$ 161,826	$ -	$ 19,356	$ 142,470

2013	Grant Fund Balance at Beginning of Year	Grants Received	Project Costs Incurred	Grant Fund Balance at 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) [2]
Oakland Airport Connector	330	-	224	106
Warm Springs Extentsion	24,917	(100) [5]	21,272	3,545
Balboa West Side Entrance	907	-	825	82
Access Improvements	487	5,514	-	6,001
Station Signage[1]	3,147	-	1,104	2,043
Train Control	-	17,500	-	17,500
	$ 79,527	$ 122,102	$ 39,803	$ 161,826

[1] This grant is on a reimbursement basis.
[2] Covered by interest earnings.
[3] Grants for $13,000,000 were reprogrammed from Station Modernization to eBART Extension with additional grant funds reprogrammed from the Warm Springs Extension ($144,000) to Station Modernization.
[4] Grants for $1,521,000 were reprogrammed from Access Improvements to Balboa West Side Entrance ($800,000) and Berkeley Station ($721,000).
[5] Grants for $100,000 were reprogrammed from Warm Springs Extension to Station Modernization.

9. State and Local Operating and Capital Financial Assistance (Continued)

As of June 30, 2014 and 2013, 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):

	2014	2013
Cash available, end of year	$ 140,887	$ 159,783
Less noncurrent portion	(120,887)	(113,096)
Net current portion	$ 20,000	$ 46,687

At the end of fiscal year 2014, the PTMISEA funds had earned interest income of $1,491,000 from inception, of which $143,000 was earned in fiscal year 2014 and $108,000 in fiscal year 2013.

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. Most 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.

10. Employee Retirement Benefits (Continued)

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2014 and 2013 was $243,970,000 and $243,798,000, respectively. The District's 2014 and 2013 payroll for all employees was $290,551,000 and $289,571,000, respectively. The District, in compliance with the collective bargaining agreements, also reimburses "classic" employees as defined by CalPERS for all or a portion of the employee share of the pension contributions, which are 9% for public safety personnel and 7% for miscellaneous covered employees. The latest collective bargaining agreements require the District to reimburse represented "classic" miscellaneous employees of Amalgated Transit Union (ATU), Service Employees International Union (SEIU), and American Federation of State, County and Municipal Employees (AFSCME), for their contributions, effective on July 1, 2013 in the amount of 6.50%, effective on January 1, 2014 in the amount of 6%, effective January 1, 2015 in the amount of 5%, effective January 1, 2016 in the amount of 4% and effective January 1, 2017 in the amount of 3%. Contributions for non-represented miscellaneous employees will be made at the same level but effective 6 months later in conjunction with their wage increases. With the latest collective bargaining agreements for represented BART Police Officer Association (BPOA) and BART Police Managers Association (BPMA) employees, they will continue to be reimbursed for their contributions. However, they will contribute to the employer's share effective July 1, 2013 in the amount of 0.5%, effective January 1, 2014 in the amount of 1%, effective January 1, 2015 in the amount of 2%, effective January 1, 2016 in the amount of 3% and effective January 1, 2017 in the amount of 4%. Contributions for non-represented safety employees will be made at the same level as BPMA but effective 6 months later in conjunction with their wage increases. Under the California Public Employees' Pension Reform Act of 2013 (PEPRA), effective January 1, 2013, "new" employees as defined by CalPERS and PEPRA who are not represented must contribute ½ of the total normal cost. The contribution rate is 12% for public safety personnel and 6.25% for miscellaneous covered employees. Currently, this does not apply to represented employees pending a court decision. State law currently excludes represented employees from these contributions pending the outcome of a federal court case or until January 1, 2016, whichever occurs sooner.

The employer annual required contributions for fiscal years 2014 and 2013 were determined by an actuarial valuation of the Plans as of June 30, 2011 and 2010, respectively. The contribution rates in fiscal year 2014 were 12.269% for the Miscellaneous Plan and 42.885% for the Safety Plan. The contribution rates in fiscal year 2013 for the Miscellaneous Plan were 11.736% and 41.566% 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, 2012	$ 26,355	100%	$ -
	June 30, 2013	26,565	100%	-
	June 30, 2014	27,838	100%	-
Safety Plan:	June 30, 2012	6,950	100%	-
	June 30, 2013	7,250	100%	-
	June 30, 2014	7,324	100%	-

10. Employee Retirement Benefits (Continued)

Funded Status and Funding Progress of the Miscellaneous Plan

As of June 30, 2013, based on CalPERS most recent actuarial report, the Miscellaneous Plan is 80.4% funded. The actuarial accrued liability for benefits was $1,801,182,000, and the actuarial value of assets was $1,449,050,000, resulting in an unfunded actuarial accrued liability (UAAL) of $352,132,000. The covered payroll (annual payroll of active miscellaneous employees covered by the plan) was $233,176,000, and the ratio of the UAAL to the covered payroll was 151%.

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, 2013, based on CalPERS most recent actuarial report, the Safety Plan is 64.5% funded. The actuarial accrued liability for benefits was $243,522,000, and the actuarial value of assets was $157,104,000, resulting in an unfunded actuarial accrued liability (UAAL) of $86,417,000. The covered payroll (annual payroll of active safety employees covered by the plan) was $16,871,000, and the ratio of the UAAL to the covered payroll was 512.2%.

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.

10. Employee Retirement Benefits (Continued)

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, 2013	June 30, 2011	June 30, 2010
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; 30 years as of the valuation date for the Miscellaneous Plan and the Safety Plan*	Closed; 20 years as of the valuation date for Miscellaneous Plan; and 24 years for the Safety Plan	Closed; 17 years as of the valuation date for Miscellaneous Plan; and 22 years for the Safety Plan
Asset valuation method	Market Value	15 year smoothed market	15 year smoothed market
Investment rate of return	7.50% (net of administrative expenses)	7.50% (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	3.30% 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
Inflation	2.75%	2.75%	3.00%
Payroll growth	3.00%	3.00%	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 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%

* Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year period with Direct Rate Smoothing with a 5-year ramp up/ramp down. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

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 BPOA and 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. These payments resumed on July 1, 2013. However, under the latest labor agreements with ATU, SEIU, and AFSCME, the District retained 0.0888% of the 1.627% contribution. The District also retained this same amount for non-represented employees. In addition, the District retained $37 per month of the 1.627% for ATU, SEIU, and AFSCME employees who elected medical to pay for medical premiums.

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, 2014 and 2013 were $9,895,000 and $5,776,000, respectively. The Money Purchase Pension Plan assets at June 30, 2014 and 2013 (excluded from the accompanying financial statements) per the plan administrator's unaudited reports were $285,335,000 and $258,290,000, respectively. At June 30, 2014, there were approximately 222 (238 in 2013) 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.

12. Other Postemployment Benefits (Continued)

In compliance with GASB requirements, the District accounts for OPEB on an accrual basis and created the Retiree Health Benefit 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 medical benefits and medical 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 and retirees 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.

12. Other Postemployment Benefits (Continued)

Beginning in fiscal year 2014, the District contributed to the Trust each pay period an amount equal to the full GASB compliant ARC. Also effective on July 1, 2013, retiree health insurance premiums and related administration fees are paid by the Trust.

Funding Policy. The actuarially calculated ARC for fiscal year 2014, using the June 30, 2012 actuarial valuation, as a percent of covered payroll for the year, are 10.90% (12.20% in fiscal year 2013) for retiree medical benefits and 0.95% (0.82% in fiscal year 2013) for additional OPEB, which amounted to $27,076,000 and $2,187,000, respectively ($29,695,000 and $2,070,000 in fiscal year 2013). In fiscal year 2014, the District contributed cash equivalent to the full annual required contribution to the Trust amounting to $27,031,000 for the retiree medical benefits and zero for the additional OPEB to partially fund the OPEB cost for the year. 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 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. The district also paid in fiscal year 2014 life insurance premiums amounting to $76,000 ($74,000 in fiscal year 2013). The District does not charge any administration cost to the Trust. Currently, most retirees pay $132.01 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 2014 and 2013 (dollar amounts in thousands):

Retiree Medical Benefits

	2014	2013
Annual Required Contribution (ARC)	$ 27,031	$ 29,695
Interest on net OPEB obligation	3,045	2,786
Adjustments to ARC	(3,000)	(2,786)
Annual OPEB Cost	27,076	29,695
Contributions made	(27,031)	(25,856)
Increase in Net OPEB obligation	45	3,839
Net OPEB obligation, beginning of year	45,106	41,267
Net OPEB obligation, end of year	$ 45,151	$ 45,106

Additional OPEB

	2014	2013
Annual Required Contribution (ARC)	$ 2,321	$ 2,070
Interest on net OPEB obligation	515	430
Adjustments to ARC	(649)	(430)
Annual OPEB Cost	2,187	2,070
Contributions made	(76)	(74)
Increase in Net OPEB obligation	2,111	1,996
Net OPEB obligation, beginning of year	12,116	10,120
Net OPEB obligation, end of year	$ 14,227	$ 12,116

12. Other Postemployment Benefits (Continued)

The total net OPEB obligations of $59,378,000 in fiscal year 2014 and $57,222,000 in fiscal year 2013 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, 2012	$ 28,002	87.9%	$ 41,267
	June 30, 2013	29,695	87.1%	45,106
	June 30, 2014	27,076	99.8%	45,151
Additional OPEB	June 30, 2012	1,813	3.6%	10,120
	June 30, 2013	2,070	3.6%	12,116
	June 30, 2014	2,187	3.5%	14,227

Funded Status and Funding Progress of the Retiree Medical Plan. As of June 30, 2013, based on Keenan and Associates (Keenan)'s most recent actuarial report, the Retiree Medical Plan is 55.6% funded. The actuarial accrued liability for benefits was $297,955,000, and the actuarial value of assets was $165,639,000 resulting in an unfunded actuarial accrued liability (UAAL) of $132,316,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) was $243,406,000 and the ratio of the UAAL to the covered payroll was 54.36%.

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, 2013, based on Keenan's most recent actuarial report, the Additional OPEB Plan is zero percent funded. The actuarial accrued liability for benefits was $33,027,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $33,027,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) was $243,406,000, and the ratio of the UAAL to the covered payroll was 13.57%.

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.

12. Other Postemployment Benefits (Continued)

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 2015 using District data as of June 30, 2013. 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, 2013	June 30, 2012	June 30, 2011
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	20 years	21 years	22 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%	2.75%
Payroll growth rate	3.00% per year	3.00% per year	0% through 2012-2013; then 3.00% per year
Health care cost trend rate for the first year	6.00%	6.50%	7.00%
Ultimate trend rate	3.75%	3.75%	3.75%
Year that rate reaches the ultimate rate	2020	2020	2020

13. Board of Directors' Expenses

Total Directors' expenses, consisting of travel and other business related expenses for the years ended June 30, 2014 and 2013 amounted to $33,000 each year.

14. Special Item

In March 1999, the District, SamTrans and MTC entered a Memorandum of Understanding (MOU) that provide a total of $198.5 million to the SFO Extension Project, with BART to provide $50 milllion, SamTrans $72 milllion, and MTC an amount sufficient to generate $76.5 million ($16.5 million for project budget items and $60 million for project cash flow requirement). The agreement stipulated that following the completion of the SFO Extension, if operating surplus is generated, such surplus shall be applied toward satisfying the $145 million SamTrans' SFO Project Cost share as well as capital contribution to the BART system, for the Warm Springs Extension.

14. Special Item (Continued)

On April 27, 2007, the District and SamTrans entered into a settlement agreement and release of claims. The agreement provided among others that SamTrans will be relieved of any and all responsibility for payment of operating costs, as well as capital costs, associated with the SFO extension. In order to facilitate the assumption by the District of responsibility for all future operating and capital costs associated with the SFO Extension and permanent relief of SamTrans of any cost responsibilities associated therewith, the District, SamTrans and MTC entered into a Tri-Party Financial Agreement, which became effective on February 28, 2007, please refer to Note 9 for more details. The Tri-Party Agreement provides that with the exception of the Loan Extension Agreement, which requires the District to pay MTC for the SFO project's temporary cash requirement, MTC, Samtrans and the District agree that the March 1999 MOU shall terminate and shall be of no further force and effect for any purpose whatsoever.

In fiscal year 2014, the District recognized the extinguishment of the construction loans from SamTrans ($72,000,000) and MTC ($16,500,000) after it concluded based on the reevaluation of the language stated in the Tri-Party Financial Agreement that repayment of those debt are no longer required. A special item settlement of loans amounting to $88,500,000 was recognized in fiscal year 2014.

15. 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 $3,464,000 for marketing and administrative services during 2014 and $3,909,000 during 2013. 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 $2,155,000 and $8,503,000 as of June 30, 2014 and 2013, 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.

15. Related Organizations and Joint Venture Projects (Continued)

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 agencies to provide for the development of a transit center located in BART's Pleasant Hill station, which includes 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.

16. 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, 2016, with a total remaining contract value of $32,058,000 as of June 30, 2014.

16. Commitments and Contingencies (Continued)

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, 2014 are as follows (dollar amounts in thousands):

Year ending June 30:	Operating Leases
2015	$ 11,794
2016	12,075
2017	12,376
2018	12,643
2019	12,943
2020-2024	34,732
2025-2029	12,500
2030-2034	12,500
2035-2039	12,500
2040-2044	12,500
2045-2049	12,500
2050-2053	9,792
Total minimum rental payments	$ 168,855

Rent expenses under all operating leases were $12,005,000 and $11,233,000 for the years ended June 30, 2014 and 2013, 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 consists 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.

16. Commitments and Contingencies (Continued)

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 was $169,000 for fiscal year 2014 and $158,000 in fiscal year 2013. The remaining balance in the Replacement Parking Rent Credit was $3,281,000 as of June 30, 2014 ($3,450,000 as of June 30, 2013).

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.

Employees' Retirement Benefits
Schedules of Funding Progress on Actuarial Value
(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 (%)
6/30/11	$ 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
6/30/13	1,801,182	1,449,050	352,132 *	80.4	233,176	151.0

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 (%)
6/30/11	$ 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
6/30/13	243,522	157,104	86,417 *	64.5	16,871	512.2

*On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CALPERS amortization and smoothing policies. Beginning with the June 30, 2013, the latest available report, CALPERS will no longer use an actuarial value of assets and will employ an amortization and rate smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the contribution rate phased in over a 5-year period. Prior to this change, CalPERS employed an amortization and smoothing policy, which spread investment returns over a 15 year period while experience gains and losses were amortized over a rolling 30-year period.

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

Valuation Date	Accrued Liability	Value of Assets	Accrued Liability (UAAL)	Funded Ratio (%)	Covered Payroll	Covered Payroll (%)
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
6/30/13	297,955	165,639	132,316	55.6	243,406	54.36

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 (%)
6/30/11	$ 25,919	$ -	$ 25,919	-	$ 240,465	10.78
6/30/12	33,050	-	33,050	-	240,465	13.74
6/30/13	33,027	-	33,027	-	245,406	13.57

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