

**San Francisco Bay Area
Rapid Transit District**

**Report on Audits of Financial Statements
For the years ended June 30, 2000 and 1999**

Report of Independent Accountants

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of San Francisco Bay Area Rapid Transit District (the "District") at June 30, 2000 and 1999, and the results of its operations, changes in fund equity and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management; our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2000, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



October 16, 2000

San Francisco Bay Area Rapid Transit District
Balance Sheet
June 30, 2000 and 1999
(in thousands)

| | 2000 | 1999 |
|--|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 308,023 | \$ 51,365 |
| Investments | 6,659 | 2,302 |
| Total cash, cash equivalents and investments (including restricted cash and investments of \$18,833 in 2000 and \$6,002 in 1999) | 314,682 | 53,667 |
| Deposits held by trustee - restricted | 121,382 | 70,470 |
| Capital grants receivable - restricted | 118,588 | 101,885 |
| Other receivables | 22,303 | 12,327 |
| Materials and supplies | 23,865 | 25,516 |
| Total current assets | 600,820 | 263,865 |
| Restricted and designated investments: | | |
| Investments for capital, debt and other purposes | 371,740 | 327,563 |
| Board designated investments | 11,179 | 11,144 |
| Capital grants receivable - restricted | 152,445 | 48,705 |
| Facilities, property and equipment, net | 3,982,835 | 3,606,616 |
| Other receivables | 29,967 | 33,122 |
| Total assets | <u>\$ 5,148,986</u> | <u>\$ 4,291,015</u> |
| Liabilities and fund equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 20,385 | \$ 13,335 |
| Accounts payable and other liabilities | 109,569 | 106,934 |
| Current portion of self-insurance liabilities | 8,778 | 9,158 |
| Deferred revenue | 5,843 | 4,836 |
| Current portion of capital lease liability | 3,154 | 3,154 |
| Total current liabilities | 147,729 | 137,417 |
| Contracts payable - restricted assets | 54,071 | 71,098 |
| Self-insurance liabilities | 21,508 | 19,849 |
| Commercial paper notes payable | 300,000 | 100,000 |
| Long-term debt, net | 774,805 | 508,236 |
| Long-term portion of deferred revenue | 9,907 | 1,776 |
| Long-term portion of capital lease liability | 29,967 | 33,122 |
| Total liabilities | <u>1,337,987</u> | <u>871,498</u> |
| Commitments and contingencies (Note 13). | | |
| Fund equity: | | |
| Contributed capital | 2,708,567 | 2,365,542 |
| Retained earnings | 1,102,432 | 1,053,975 |
| Total fund equity | <u>3,810,999</u> | <u>3,419,517</u> |
| Total liabilities and fund equity | <u>\$ 5,148,986</u> | <u>\$ 4,291,015</u> |

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

San Francisco Bay Area Rapid Transit District
Statements of Revenues and Expenses
For the years ended June 30, 2000 and 1999
(in thousands)

| | 2000 | 1999 |
|--|------------------|------------------|
| Operating revenues: | | |
| Fares | \$ 194,291 | \$ 173,484 |
| Other (including investment income and net change in fair value of investments) | <u>17,988</u> | <u>17,215</u> |
| Total operating revenues | 212,279 | 190,699 |
| Operating expenses: | | |
| Transportation | 92,640 | 86,872 |
| Maintenance | 128,499 | 123,730 |
| Police services | 22,880 | 22,097 |
| Construction and engineering | 15,535 | 15,275 |
| General and administrative | 84,987 | 77,556 |
| Depreciation | <u>73,606</u> | <u>62,893</u> |
| Total operating expenses | 418,147 | 388,423 |
| Less capitalized costs | <u>(29,741)</u> | <u>(31,439)</u> |
| Net operating expenses | <u>388,406</u> | <u>356,984</u> |
| Operating loss | <u>(176,127)</u> | <u>(166,285)</u> |
| Nonoperating income (expense): | | |
| Transactions and use tax (sales tax) | 170,911 | 151,806 |
| Property tax | 19,364 | 53,449 |
| State financial assistance | - | 192 |
| Local financial assistance | 723 | 259 |
| Other investment income | 34,477 | 13,833 |
| Interest expense | (33,269) | (23,507) |
| Other expense, net | <u>(885)</u> | <u>(620)</u> |
| Total nonoperating income, net | <u>191,321</u> | <u>195,412</u> |
| Net income | <u>\$ 15,194</u> | <u>\$ 29,127</u> |

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

San Francisco Bay Area Rapid Transit District
Statements of Changes in Fund Equity
For the years ended June 30, 2000 and 1999
(in thousands)

| | Contributed Capital | Retained Earnings | Total Fund Equity |
|---|--------------------------------|------------------------------|----------------------------------|
| Balances, June 30, 1998 | <u>\$ 2,048,132</u> | <u>\$ 996,864</u> | <u>\$ 3,044,996</u> |
| Net income | - | 29,127 | 29,127 |
| Other additions (deductions): | | | |
| Contributed capital | 345,394 | - | 345,394 |
| Depreciation of assets acquired with contributed capital | <u>(27,984)</u> | <u>27,984</u> | <u>-</u> |
| Balances, June 30, 1999 | <u>2,365,542</u> | <u>1,053,975</u> | <u>3,419,517</u> |
| Net income | - | 15,194 | 15,194 |
| Other additions (deductions): | | | |
| Contributed capital | 376,288 | - | 376,288 |
| Depreciation of assets acquired with contributed capital | <u>(33,263)</u> | <u>33,263</u> | <u>-</u> |
| Balances, June 30, 2000 | <u>\$ 2,708,567</u> | <u>\$ 1,102,432</u> | <u>\$ 3,810,999</u> |

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

San Francisco Bay Area Rapid Transit District
Statements of Cash Flows
For the years ended June 30, 2000 and 1999
(in thousands)

| | 2000 | 1999 |
|---|-------------------|------------------|
| Cash flows from operating activities: | | |
| Operating loss | \$ (176,127) | \$ (166,285) |
| Less interest income included in operating revenue | (8,512) | (8,395) |
| Operating loss excluding interest income | <u>(184,639)</u> | <u>(174,680)</u> |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 73,606 | 62,893 |
| Amortization of deferred changes | 2,485 | 2,485 |
| Net effect of changes in: | | |
| Receivables | (130,419) | (53,515) |
| Materials and supplies | 1,651 | (1,145) |
| Accounts payable and other liabilities | 2,635 | 16,739 |
| Self-insurance liabilities | 1,279 | (1,665) |
| Deferred revenue | 9,138 | 2,844 |
| Net cash used in operating activities | <u>(224,264)</u> | <u>(146,044)</u> |
| Cash flows from noncapital financing activities: | | |
| Transactions and use tax received | 124,668 | 109,565 |
| Property tax received | 15,479 | 14,438 |
| Financial assistance received | 723 | 451 |
| Net cash provided by noncapital financing activities | <u>140,870</u> | <u>124,454</u> |
| Cash flows from capital and related financing activities: | | |
| Transactions and use tax received | 46,243 | 42,241 |
| Property tax received | 3,885 | 39,011 |
| Interest paid on debt | (36,413) | (30,166) |
| Capital grants received | 376,288 | 345,394 |
| Principal paid on long-term debt | (13,335) | (53,620) |
| Proceeds from issuance of TFA bridge toll notes | 65,680 | - |
| Proceeds from issuance of commercial paper notes | 200,000 | 100,000 |
| Proceeds from issuance of sales tax revenue bonds | 134,945 | - |
| Proceeds from construction loans | 86,699 | - |
| Issuance costs for long-term debt | (5,791) | - |
| Expenditures for facilities, property and equipment | (461,642) | (392,186) |
| Other, net | (15) | 5 |
| Net cash provided by capital and related financing activities | <u>396,544</u> | <u>50,679</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale and maturity of investments | 986,850 | 763,749 |
| Purchase of investments | (1,086,331) | (859,254) |
| Interest on investments | 42,989 | 22,228 |
| Net cash used in investing activities | <u>(56,492)</u> | <u>(73,277)</u> |
| Net increase/(decrease) in cash and cash equivalents | <u>256,658</u> | <u>(44,188)</u> |
| Cash and cash equivalents, beginning of year | 51,365 | 95,553 |
| Cash and cash equivalents, end of year | <u>\$ 308,023</u> | <u>\$ 51,365</u> |

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

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

1. 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.

The District has defined its financial reporting entity in accordance with Government Accounting Standards No. 14, which states that the financial reporting entity should consist of (a) the primary government, (b) the organizations for which the primary government is financially accountable, and (c) the other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on this definition, the financial statements of the District (the primary government) include those of the Transit Financing Authority (the Authority), a component unit.

Basis of accounting and presentation

The accrual basis of accounting is used by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The financial statements of the District are presented as an enterprise fund and are accounted for in separate funds, principally the Operating Fund, Construction Fund and Debt Service Fund. Such funds are combined for financial reporting purposes in order to present the financial position and results of operations of the District as a whole.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation. These reclassifications had no effect on previously reported fund equity.

Cash and cash equivalents

The District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Deposits held by trustee and investments restricted for Board designated purposes are treated as investments.

Investments

Investments are stated at fair value, which is based on quoted market price. As a matter of policy, the District holds investments until their maturity.

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

Deposits held by trustee

Deposits held by trustee, consisting of cash and investments, are held by trustee banks in accordance with the District's various bond and note indentures and for general debt service requirements.

Restricted and designated cash and investments

Certain cash and investments are classified as restricted and designated assets on the balance sheets because their use is limited, either by certain bond covenants or by the Board of Directors' designations. The use of these funds is restricted for construction or for debt service payments.

Materials and supplies

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

Facilities, property and equipment

Facilities, property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation expense on assets acquired with capital grant funds is transferred to contributed capital after being charged to operations.

Major improvements and betterments to existing facilities and equipment are capitalized. Costs for maintenance and repairs which do not extend the useful life of the applicable assets are charged to expense as incurred. Upon disposition, costs and accumulated depreciation are removed from the accounts and resulting gains or losses are included in operations.

The District capitalizes certain interest income and expense related to tax-free borrowings. Following the capitalization of interest revenue of \$15,605,000 and \$8,727,000 for fiscal years 2000 and 1999, respectively, the net effect of interest capitalization was to increase expenditures for facilities, property and equipment by \$5,210,000 and \$8,593,000 during the years ended June 30, 2000 and 1999, respectively, for the difference between interest income and interest expense from applicable borrowings. Total interest costs amounted to \$20,815,000 and \$17,320,000 for fiscal years 2000 and 1999, respectively.

Compensated absences

Compensated absences are accrued and reported as a liability in the period earned.

Fare operating revenue

Fare operating revenues are earned as passengers utilize the train service. Deferred revenue includes unearned passenger revenue which is an estimate of passenger tickets purchased which have not yet been used as well as unearned revenue related to license fees paid by telecommunication companies for the use of the District's right of way for wireless accessibility to their customers.

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

Contributed capital

The District receives grants from the Federal Transit Administration ("FTA") and other agencies of the U.S. Department of Transportation, state, and local transportation funds for the acquisition of transit-related equipment and improvements. Capital grants are recognized as donated capital to the extent that project costs under the grant have been incurred. Capital grant funds earned, less amortization equal to accumulated depreciation of the related assets, are included in contributed capital.

Transactions and use tax (sales tax) revenue

State of California legislation authorizes the District to impose a ½% transaction and use tax within District boundaries which is collected and administered by the State Board of Equalization. Of amounts available for distribution, 75% is paid directly to the District for the purpose of paying operating expenses, except for a portion which is paid directly to the 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 trustee) as revenue.

Property taxes, collection and maximum rates

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

The District receives property tax revenues to meet the debt service requirements of its General Obligation Bonds, which was fully repaid during fiscal year ended June 30, 1999. The District also receives an allocation of property tax revenues for transit operations. San Francisco, Alameda and Contra Costa Counties assess properties and bill for, collect, and distribute property taxes. Property taxes are recorded as revenue and receivables, net of estimated uncollectibles, in the fiscal year of levy.

Financial assistance grants

Financial assistance grants are accrued as other revenue in the period to which the grant applies.

Collective bargaining

Approximately 87% of the District's employees are subject to collective bargaining. The current labor contracts expire on June 30, 2001.

Use of estimates

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

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

Recently Issued Accounting Pronouncements

In 1999, GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 34, *Basic Financial Statement – Management's Discussion & Analysis – for State and Local Governments*. GASB Statements No. 33 and No. 34 are effective for the fiscal years beginning after June 15, 2000 and June 15, 2001, respectively. The impact of these pronouncements on the District financial statements has yet to be determined.

2. Cash and Investments

The District maintains a cash and investment pool that includes cash and investments available for general use and restricted for Board-designated purposes.

Deposits

The carrying amount of the District's deposits with banks and cash on hand was \$77,804,000 and \$9,574,000 at June 30, 2000 and 1999, respectively. The corresponding bank balance was \$84,145,000 and \$10,841,000 at June 30, 2000 and 1999, respectively. Of the bank balance, \$900,000 and \$500,000 for 2000 and 1999, respectively, was insured by federal depository insurance or collateralized by securities held by the District's agent in the District's name, and \$83,245,000 (1999, \$10,341,000) is required by Section 53652 of the California Government Code to be collateralized 110% by the pledging financial institutions. Such collateral is not required to be in the District's name.

Investments

State of California statutes and District policy authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, bankers' acceptances, repurchase and reverse repurchase agreements, and the State Treasurer's investment pool.

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

The District's investments are categorized below to give an indication of the credit risk assumed by the District at June 30, 2000 and 1999. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. The District's investment pools are reported at fair value.

| | (in thousands) | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| | 2000 | | | 1999 | | |
| | Category | | Fair Value | Category | | Fair Value |
| | 1 | 2 | | 1 | 2 | |
| Money market | \$ - | \$ - | \$ - | \$ - | \$ 9,910 | \$ 9,910 |
| U.S. Treasury bills | - | - | - | - | - | - |
| U.S. Treasury funds | - | 44,924 | 44,924 | - | 60,560 | 60,560 |
| Federal agency obligations | 422,136 | - | 421,807 | 331,353 | - | 331,843 |
| Repurchase agreements | 182,602 | 76,458 | 259,060 | 33,810 | - | 33,810 |
| Total | \$ 604,738 | \$ 121,382 | 725,791 | \$ 365,163 | \$ 70,470 | 436,123 |
| Cash on hand | | | 1,412 | | | 1,394 |
| Time and demand deposits | | | 76,780 | | | 3,286 |
| Investment in California local agency investment fund | | | 15,000 | | | 15,000 |
| Total | | | \$ 818,983 | | | \$ 455,803 |
| Reported as: | | | | | | |
| Cash and cash equivalents | | | \$ 308,023 | | | \$ 51,365 |
| Investments - current | | | 6,659 | | | 2,302 |
| Payroll and other liabilities (representing cash overdraft) | | | - | | | (7,041) |
| Deposits held by trustee-restricted | | | 121,382 | | | 70,470 |
| Investments restricted for capital, debt and other purposes | | | 371,740 | | | 327,563 |
| Investments restricted for Board designated purposes | | | 11,179 | | | 11,144 |
| Total | | | \$ 818,983 | | | \$ 455,803 |

The Board of Directors of the District have designated the following amounts, consisting of investments, as a reserve of fund equity for the following purposes (in thousands):

| | 2000 | 1999 |
|-------------------------|------------------|------------------|
| Basic system completion | \$ 606 | \$ 641 |
| System improvement | 1,573 | 1,503 |
| Self-insurance | 9,000 | 9,000 |
| Total | \$ 11,179 | \$ 11,144 |

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

3. Facilities, Property and Equipment

Facilities, property and equipment at June 30, 2000 and 1999 are summarized as follows (in thousands):

| | Lives (Years) | 2000 | 1999 |
|--|------------------|---------------------|---------------------|
| Land | | \$ 242,186 | \$ 242,186 |
| Improvements | 80 | 1,881,141 | 1,849,781 |
| System-wide operation and control | 20 | 391,022 | 388,897 |
| Revenue transit vehicles | 30 | 681,131 | 586,946 |
| Service and miscellaneous equipment | 3-20 | 54,373 | 48,566 |
| Capitalized construction and start-up costs | 30 | 98,342 | 98,339 |
| Repairable property items | 30 | 23,571 | 22,562 |
| Capital leases | 30 | 53,366 | 53,366 |
| | | <u>3,425,132</u> | <u>3,290,643</u> |
| Less accumulated depreciation and amortization | | <u>(1,017,240)</u> | <u>(944,187)</u> |
| | | 2,407,892 | 2,346,456 |
| Construction-in-progress | | <u>1,574,943</u> | <u>1,260,160</u> |
| Total | | <u>\$ 3,982,835</u> | <u>\$ 3,606,616</u> |

The District is currently involved in construction of Phase 1 of an extension project that will add 38 miles of track and 10 new stations to the system at a total cost of approximately \$3,264,000,000. The Dublin/Pleasanton, Pittsburg/Bay Point and Colma station extensions are open and in revenue service. Completion of the San Francisco Airport extension is anticipated by July 2002. The District anticipates funding for Phase 1 will come from the federal government (\$877,000,000), State of California (\$769,000,000), San Mateo County (\$503,000,000), Alameda and Contra Costa Counties (\$471,000,000), bridge tolls (\$155,000,000), San Francisco International Airport (\$200,000,000), and the District (\$289,000,000).

The District has entered into contracts for the construction of various facilities and equipment totaling approximately \$942,671,000 at June 30, 2000.

4. Risk Management

The District is partially self-insured for workers' compensation, public liability and property damage. The self-insured maximum for workers' compensation is \$500,000. The self-insured maximum for public liability and property damage is \$2,000,000. Claims in excess of self-insured retentions are covered up to an additional amount of \$198,000,000.

The self-insurance programs are administered by independent claims adjustment firms. The liability is based, in part, upon the independent adjustment firms' estimate of reserves necessary for the settlement of outstanding claims and related administrative costs, and includes claims that have been

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

incurred but not yet reported. Such reserves are actuarially determined and subject to periodic adjustment as conditions warrant.

The estimated liability for insurance claims at June 30, 2000 is believed to be sufficient to cover any costs arising out of claims filed or to be filed for accidents which occurred through that date.

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. These losses include an estimate of claims that have been incurred but not yet reported.

At June 30, 2000 and 1999, the amount of these liabilities was \$30,286,000 and \$29,007,000, respectively. Changes in the reported liability since the beginning of the respective fiscal year are as follows (in thousands):

| | 2000 | 1999 |
|--|------------------|------------------|
| Liability at beginning of year | \$ 29,007 | \$ 30,672 |
| Current year claims and changes in estimates | 7,808 | 5,972 |
| Payment of claims | <u>(6,529)</u> | <u>(7,637)</u> |
| Liability at end of year | <u>\$ 30,286</u> | <u>\$ 29,007</u> |

5. Joint Exercise of Powers Agreements

Transit Financing Authority

The Joint Exercise of Powers Agreement (the "Agreement"), dated August 1, 1991, between the District and Metropolitan Transportation Commission (MTC) provided for the creation of the Transit Financing Authority (the "Authority"), a public instrumentality of the State of California. The term of the Agreement is for ten years, unless extended or earlier terminated. The Authority was formed for the purpose of providing financing and contracting for public transit improvements, including the refinancing of prior indebtedness and acquiring, selling and financing public capital improvements, working capital, liability and other insurance needs, and for the specific purpose of assisting in financing the District's East-Bay and West-Bay extensions.

The governing board of the Authority consists of two members each from the District and MTC. Neither the District nor MTC is responsible for any debt, liabilities and obligations of the Authority.

At the end of the term or upon the earlier termination of the Agreement, all assets of the Authority shall be distributed to the two participants, and any surplus money on hand shall be returned to these participants in proportion to their respective contributions to the Authority.

The Authority has undertaken a commercial paper program to fund a portion of the costs of acquiring and constructing the District's extension project to the San Francisco International Airport (SFO extension project). Under the program, in December 1998, the Authority issued its Commercial Paper Notes Series A and Series B, in an aggregate amount of \$100,000,000.

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

In October 1999 and March 2000, Commercial Paper Notes Series C and Series D and Commercial Paper Notes Series E and Series F were issued, respectively, in an aggregate amount of \$100,000,000 per issuance. As of June 30, 2000 and 1999, \$300,000,000 and \$100,000,000 of commercial paper notes, respectively, remained outstanding (refer Note 6).

Also in order to fund a portion of the costs of SFO extension project, in September 1999 the Authority issued a limited liability note (Bridge Toll Note) in an amount of \$65,680,000, payable from and collateralized solely by a pledge of certain bridge toll revenues allocated to the District by MTC. The note has interest rates ranging from 4.25% to 5.75% and matures from August 2000 through February 2007.

At June 30, 2000, the Authority had assets consisting of unused cash proceeds in the amount of \$97,339,000 and advances to the SFO extension project in the amount of \$285,550,000 for the payment of project related costs. The Authority's liabilities consisted entirely of the \$300,000,000 of commercial paper notes payable and the \$65,680,000 of the Bridge Toll note payable.

Capitol Corridor Joint Powers Authority

The Joint Exercise of Powers Agreement (the "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 (the "Authority"), a public instrumentality of the State of California. The Authority 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 the Authority and in that capacity shall provide all necessary administrative support to the Authority. The Authority entered into an Interagency Agreement with the State of California and assumed the administration and operation commencing at the service on July 1, 1998. The term of the Interagency Agreement is for three years, from July 1, 1998, unless extended or terminated.

The governing board of the Authority 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 the Authority.

At the end of the term or upon the earlier termination of the Agreement, all assets of the Authority shall be distributed to the six participants, and any surplus money on hand shall be returned to these participants in proportion to their respective contributions to the Authority.

The District has not contributed any assets to or invested in the Authority.

Technology Reinvestment Project

In 1994, the District and the joint venture of Hughes Transportation Control Systems, Inc. ("Hughes"), and Morrison Knudsen Train Control, Inc. ("HMK") entered into a memorandum of understanding ("MOU") to form an alliance ("Alliance") to develop a cost-effective, highly reliable and safe train control system for passenger and freight-carrying trains. The project is partially funded under the Technology Reinvestment Project managed by the Advanced Research Projects Agency ("ARPA"). The Federal Transit Administration ("FTA") has agreed to manage and oversee the project on behalf of ARPA.

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

During fiscal year 1998, the Alliance was reorganized. Hughes and HMK withdrew and were replaced by Harmon Industries, Inc. ("Harmon"). In August 1998, a MOU was executed between the District and Harmon which replaced the 1994 MOU between the District and the joint venture of Hughes and HMK.

During the year ended June 30, 1999, the District's participation in this project was in the form of in-kind contributions which consist primarily of labor costs and direct costs that are partially reimbursable by the Alliance. As of June 30, 2000 and 1999, the District had provided the Alliance with approximately \$12,758,000 in cumulative in-kind contributions and had incurred \$17,915,000 and \$13,090,000 of direct costs, respectively, \$948,000 of which were reimbursed by the Alliance.

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 administer ADA paratransit services in the overlapping service area of the District and AC Transit. The Consortium receives operating subsidies of State Transit Assistance funds administered by the MTC. The project receives direction from the Service Review Committee, which consists of the general manager (or designee) from each member agency. The lead agency responsible for administering the Consortium is rotated annually as established by the Agreement. The District was the lead agency in fiscal year 2000.

The District received approximately \$192,000 from MTC in fiscal year 1999. During the year ended June 30, 2000, no financial assistance was received from MTC.

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

6. Long-Term Debt

Long-term debt at June 30, 2000 and 1999 is summarized as follows (in thousands):

| | 2000 | 1999 |
|--|---------------------|-------------------|
| 1990 Sales Tax Revenue Refunding Bonds | \$ 69,905 | \$ 76,034 |
| 1991 Sales Tax Revenue Bonds | 9,500 | 11,435 |
| 1995 Sales Tax Revenue Bonds | 99,345 | 102,550 |
| 1998 Sales Tax Revenue Bonds | 348,510 | 348,510 |
| 1999 Sales Tax Revenue Bonds | 134,945 | - |
| TFA Bridge Toll Notes | 65,680 | - |
| Construction Loan | 86,699 | - |
| | <u>814,584</u> | <u>538,529</u> |
| Less: | | |
| Unamortized bond discount and issuance costs | (17,218) | (12,297) |
| Deferred charges on insubstance defeasance | (2,176) | (4,661) |
| Current portion | <u>(20,385)</u> | <u>(13,335)</u> |
| Long-term portion of bonds, toll notes and construction loan | 774,805 | 508,236 |
| Commercial paper notes payable | <u>300,000</u> | <u>100,000</u> |
| Net long-term portion of debt | <u>\$ 1,074,805</u> | <u>\$ 608,236</u> |

Bond and note discount and issuance costs are amortized over the life of the related debt.

1990 Sales Tax Revenue Refunding Bonds (the 1990 Bonds)

In July 1990, the District issued sales tax refunding bonds totaling \$158,478,000. The 1990 Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. At June 30, 2000, the 1990 Bonds consist of \$37,560,000 of current interest serial bonds due from 2000 to 2011 with interest rates ranging from 6.70% to 6.75% and \$32,345,000 of capital appreciation serial bonds (\$16,828,000 original amount) with yields of 6.65% to 6.75% due from 2001 to 2004. Interest on the capital appreciation bonds is payable at maturity. For financial reporting purposes, accrued interest is added to the principal balance.

1991 Sales Tax Revenue Bonds (the 1991 Bonds)

The 1991 Bonds were issued in August 1991 in the amount of \$56,010,000 and are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2000, the 1991 Bonds consist of \$6,825,000 of serial bonds due from 2000 to 2002 with interest rates ranging from 6.1% to 6.3% and of \$2,675,000 of term bonds due in 2003 with an interest rate of 6.4%. Additionally, the 1991 Bonds maturing after June 30, 2001 are redeemable, at the option of the District, at prices ranging from 100% to 102%.

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

1995 Sales Tax Revenue Bonds (the 1995 Bonds)

In June 1995, the District issued sales tax revenue bonds totaling \$135,000,000 to provide funds for certain capital improvements including rehabilitation of District vehicles and facilities and energy conservation measures. The bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2000, the 1995 Bonds consist of \$49,070,000 serial bonds due from 2000 to 2011 with interest rates ranging from 4.7% to 5.7% and \$50,275,000 of term bonds due from 2012 to 2020 with an interest rate of 5.5%. The District is required to make sinking fund payments on the term bonds beginning on July 1, 2012. In addition, the 1995 Bonds maturing after June 30, 2006 will be redeemable after July 1, 2005 at the option of the District at prices ranging from 100% to 101%.

1998 Sales Tax Revenue Bonds (the 1998 Bonds)

In March 1998, the District issued sales tax revenue bonds totaling \$348,510,000 to provide funds for certain capital improvements, including rehabilitation of the District's vehicles and facilities to repay obligation of approximately \$49,645,000 related to a lease of certain telecommunications equipment, and to refund certain outstanding bonds with principal amounts of \$155,115,000 to achieve debt service savings. The bonds are special obligations of the District payable from and collateralized by a pledge of sales tax revenues. At June 30, 2000, the 1998 Bonds consist of \$156,140,000 serial bonds due from 2000 to 2018 with interest rates ranging from 3.65% to 5.25% and \$79,105,000 of the term bond due July 1, 2000 with interest rate of 4.75% and \$113,265,000 of term bond due July 1, 2028 with interest rate of 5%. The District is required to make sinking fund payments on the term bond due July 1, 2023 beginning on July 1, 2019 and on the term bond due July 1, 2028 beginning on July 1, 2024. In addition, the 1998 bonds maturing after June 30, 2009 may be redeemed prior to their respective maturities after June 30, 2008 and at the option of the District at prices ranging from 100% to 101%.

1999 Sales Tax Revenue Bonds (the 1999 Bonds)

In October 1999, the District issued sales tax revenue bonds totaling \$134,945,000 to provide funds for certain capital improvements including rehabilitation of the District's vehicles, initial deposit to a capital reserve account for the SFO extension project and rehabilitation of the District's maintenance facility. The bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2000, the 1999 Bonds consist of \$44,930,000 serial bonds due from 2003 to 2019 with interest rates ranging from 4.15% to 5.25% and three 5.5% term bonds in the amounts of \$33,210,000, \$18,515,000 and \$38,290,000 due in 2026, 2029 and 2034, respectively. The District is required to make sinking fund payments on the term bond due July 1, 2026 beginning on July 1, 2020 and on the term bond due July 1, 2029 beginning on July 1, 2027 and on the term bond due July 1, 2034 beginning on July 1, 2030. In addition, the 1999 bonds maturing on or after July 1, 2010 may be redeemed prior to their respective maturities on or after July 1, 2009 and at the option of the District at prices ranging from 100% to 101%.

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

Defeased Bonds

No bonds were defeased during fiscal years 2000 and 1999. In March 1998, the District defeased several bonds by placing part of the proceeds of the 1998 Sales Tax Revenue Bonds in an irrevocable trust to provide for future debt service payments on these bonds. The advance refunding met the requirement of an insubstance debt defeasance, and the term bonds were removed from the District's long-term debt. Accordingly, the Trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the advance refunding, the District reduced its total debt service requirement by \$16,644,000 which resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$10,721,000. As of June 30, 1998, the amount of defeased debt outstanding and removed from the long-term debt was as follows (in thousands):

| | 1998 |
|--|-------------------|
| | Defeasance |
| 1990 Sales Tax Revenue Refunding Bonds | \$ 56,215 |
| 1991 Sales Tax Revenue Bonds | 37,200 |
| 1993 Sales Tax Revenue Notes | 38,085 |
| 1995 Sales Tax Revenue Bonds | <u>23,615</u> |
| Total defeased | <u>\$ 155,115</u> |

The District deferred interest expenses of \$7,767,000 related to the defeasance of certain bonds. These deferred charges are recorded as a reduction of the new 1998 bonds and are amortized over the life of the defeased bonds. Amortization expense on these deferred charges was \$2,485,000 for each fiscal year 2000 and 1999.

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 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, 2000, the District had an arbitrage liability related to the 1998 Bonds in the amount of \$755,000, payable no later than May 12, 2003.

Construction Loan

In March 1999, the District, MTC and San Mateo County Transit District (SamTrans) entered into a Memorandum of Understanding (MOU), which provided additional funds to the extension project at the San Francisco International Airport.

Pursuant to the MOU, the construction loan as of June 30, 2000, consists of funds received from SamTrans for \$72,000,000 and MTC for \$14,699,000. The District has committed to loan \$50,000,000 of its own funds to assist with the financing of the San Francisco International Airport Extension Project costs. The terms and conditions of the MOU provide for the repayment of the loan, without interest, from the future net operating surplus generated by the San Francisco International Airport Extension. Such repayments will commence after

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

SamTrans' capital contribution to the BART system for the Warm Springs extension is fully paid from future net operating surplus.

Commercial Paper Notes

In December 1998, the Board amended the District's existing commercial paper program such that total issuance under this program may not exceed \$300,000,000 and any proceeds from the offerings were to be used for the specific purpose of funding a portion of the costs of acquiring and constructing the District's extension project to the San Francisco International Airport. Under this program, the District is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days.

To provide liquidity for the program, the District maintains three lines of credit facilities with commercial banks, totaling \$309,000,000. Drawing under these agreements is restricted to payment of maturing commercial paper notes and related interest. There were no borrowings outstanding under these agreements as of June 30, 2000.

At June 30, 2000 and 1999, \$300,000,000 and \$100,000,000, respectively, in commercial paper notes was outstanding, with terms of 32 to 160 days and interest rates ranging from 2.60% to 4.25%. Matured notes will be refinanced via the subsequent sale of additional notes until final redemption is due upon the expiration of the letters of credit on June 25, 2002. The notes will be paid from the federal funding grant monies related to the SFO extension. Unused proceeds as of June 30, 2000 and 1999 totaled \$19,159,000 and \$34,000,000, respectively.

Debt Repayments

The following is a schedule of long-term debt principal payments required as of June 30, 2000 (in thousands):

| | 1990 | 1991 | 1995 | 1998 | 1999 | TFA Bridge Toll Notes | Commercial Paper Notes | Construction Loan | Total |
|--|------------------|-----------------|------------------|-------------------|-------------------|-----------------------------|------------------------------|----------------------|---------------------|
| Year ending June 30: | | | | | | | | | |
| 2001 | \$ 8,785 | \$ 2,090 | \$ 3,355 | \$ 820 | \$ - | \$ 5,335 | \$ - | \$ - | \$ 20,385 |
| 2002 | 8,833 | 2,270 | 3,510 | 845 | - | 6,990 | 300,000 | - | 322,448 |
| 2003 | 8,314 | 2,465 | 3,680 | 880 | - | 7,320 | - | - | 22,659 |
| 2004 | 7,825 | 2,675 | 3,860 | 915 | 1,785 | 7,680 | - | - | 24,740 |
| 2005 | 7,373 | - | 4,055 | 3,860 | 1,860 | 8,075 | - | - | 25,223 |
| Thereafter | 28,775 | - | 80,885 | 341,190 | 131,300 | 30,280 | - | 86,699 | 699,129 |
| | <u>\$ 69,905</u> | <u>\$ 9,500</u> | <u>\$ 99,345</u> | <u>\$ 348,510</u> | <u>\$ 134,945</u> | <u>\$ 65,680</u> | <u>\$ 300,000</u> | <u>\$ 86,699</u> | <u>\$ 1,114,584</u> |
| Less: | | | | | | | | | |
| Unamortized bond discount and issuance cost | | | | | | | | | (17,218) |
| Unamortized deferred charges on insubstance defeasance | | | | | | | | | (2,176) |
| Current portion | | | | | | | | | (20,385) |
| Net long-term portion | | | | | | | | | <u>\$ 1,074,805</u> |

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

7. Federal Grants

The U.S. Department of Transportation provides financial assistance to the District for capital projects, planning and technical assistance. Grants which were active during the year ended June 30, 2000 are summarized as follows (in thousands):

| | San Francisco Airport Extension Project | Other Capital Projects |
|---|--|---------------------------------------|
| Total approved project costs | <u>\$ 1,483,200</u> | <u>\$ 351,598</u> |
| Total approved federal funds | \$ 217,199 | \$ 286,028 |
| Less cumulative amounts earned | <u>449,644</u> | <u>168,584</u> |
| Amounts below (in excess of) approved federal funds | <u>\$ (232,445)</u> | <u>\$ 117,444</u> |

The San Francisco Airport Extension Project is covered by a Federal Full Funding Grant Agreement which authorizes the District to incur costs or expend local funds prior to an award of Federal funding assistance without prejudice to possible future Federal participation.

8. Local and State Financial Assistance

The District receives local operating and capital assistance from Transportation Development Act Funds ("TDA"). For the years ended June 30, 2000 and 1999, TDA operating assistance was \$696,000 (\$245,000 in 1999) and capital assistance was \$600,000 (nil in 1999). These funds were received from the counties of Alameda and San Mateo.

The District receives state operating and capital assistance from State Transit Assistance Funds ("STA"). For the year ended June 30, 1999, STA assistance was \$192,000, all of which was used for operating assistance. 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 did not receive any STA assistance for the year ended June 30, 2000.

9. Employees' Retirement Plan

Plan Description

All employees are eligible to participate in the Public Employees' Retirement Fund (Fund) of the State of California's Public Employees' Retirement System under the Miscellaneous Plan and the Safety Plan of the San Francisco Bay Area Rapid Transit. The Fund is an agent multiple-employer defined-benefit retirement plan that acts as a common investment and administrative agent for 1,386 local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and District ordinance.

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

All investments are reported at fair value. The fair value of investments in securities is generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. Investments held in internal investment pools have been reported at fair value.

Mortgages are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, are estimated based on independent appraisals. Short-term investments are reported at fair value, when available, or at cost plus accrued interest, which approximates market value when market values are not available. For investments where no readily ascertainable market value exists, management in consultation with their investment advisors has determined the fair values for the individual investments.

Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the Plan: California PERS, P.O. Box 942709, Sacramento, CA 94229-2709, (916) 326-3420.

Funding Policy

The Plan's 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 ordinance. The individual entry age normal method is used to determine the normal cost, and beginning on July 1, 1997, the unfunded actuarial accrued surplus or liability (past service liability) is amortized as a level percentage of future covered payroll over 13 years for the Miscellaneous Plan and the Safety Plan. District contributions for the year ended June 30, 2000 to cover normal cost and to amortize the unfunded actuarial accrued surplus approximated 6.539% (5.495% in 1999) and 11.919% (5.341% in 1999) of covered payroll for the Miscellaneous Plan and the Safety Plan, respectively.

The District was not required to make contributions to the Fund for covered employees for the fiscal year 2000 due to a surplus of the District's portion of the Fund's net assets over the District's pension benefit obligation caused by a change in 1988 in the actuarial valuation method and an actual rate of return on investment assets that exceeded the assumed rate.

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2000 and 1999 was \$178,393,000 and \$168,902,000, respectively. The District's 2000 and 1999 payroll for all employees was \$196,615,000 and \$190,699,000, respectively. The District, due to a Collective Bargaining Agreement, also has a legal obligation to contribute an additional 9% for public safety personnel and 7% for miscellaneous covered employees. Employees have no obligation to contribute to the Fund.

Since the District had made the actuarially-determined required contributions since 1988, the pension liability or asset was zero at June 30, 2000, in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*.

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

Funding Status and Annual Pension Cost

Three-Year Trend Information for the Fund (in thousands):

| | Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---------------------|--------------------------|---------------------------------|-------------------------------------|------------------------------|
| Miscellaneous Plan: | June 30, 1998 | \$ 9,150 | 100% | \$ - |
| | June 30, 1999 | \$ 8,799 | 100% | \$ - |
| | June 30, 2000 | \$ 10,920 | 100% | \$ - |
| Safety Plan: | June 30, 1998 | \$ 364 | 100% | \$ - |
| | June 30, 1999 | \$ 497 | 100% | \$ - |
| | June 30, 2000 | \$ 1,331 | 100% | \$ - |

The required contribution was determined as part of an actuarial valuation performed as of June 30, 1998, the latest available for the Fund. The significant actuarial assumptions used in the 1998 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 8.25%, annual payroll increases of 3.50% attributable to inflation, 0.25% attributable to real salary increases, and merit increases that vary by length of service, and no postretirement benefit increases.

The funding status applicable to the District's employee group at June 30, 1999 (the latest available for the Fund) is summarized as follows:

Funded Status of the Miscellaneous Plan (in thousands):

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Liability (Excess Assets) | Funded Status | Annual Covered Payroll | UAAL as a Percentage of Payroll |
|-------------------|---|---------------------------------|---|------------------|------------------------------|---------------------------------------|
| 6/30/97 | \$ 493,403 | \$ 607,355 | \$ (113,952) | 123.1% | \$ 149,540 | (76.201)% |
| 6/30/98 | 534,011 | 737,029 | (203,018) | 138.0% | 153,861 | (131.949)% |
| 6/30/99 | 587,709 | 846,793 | (259,084) | 144.1% | 164,247 | (157.741)% |

Funded Status of the Safety Plan (in thousands):

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Liability (Excess Assets) | Funded Status | Annual Covered Payroll | UAAL as a Percentage of Payroll |
|-------------------|---|---------------------------------|---|------------------|------------------------------|---------------------------------------|
| 6/30/97 | \$ 42,069 | \$ 51,721 | \$ (9,652) | 122.9% | \$ 9,999 | (96.536)% |
| 6/30/98 | 51,007 | 62,291 | (11,284) | 122.1% | 10,422 | (108.269)% |
| 6/30/99 | 56,354 | 71,453 | (15,099) | 126.8% | 11,211 | (134.682)% |

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

Postretirement Health Care Cost

In addition to the retirement benefits described above, as specified in the District's ordinance, the District provides postretirement health care benefits assistance to all employees who retire directly from the District or to their surviving spouses. Substantially all of the District's employees may become eligible for those benefits if they reach age 50 with 5 years of service with the District. Currently, 527 retirees are provided this benefit. The District paid up to \$115,000 per month for health insurance premiums for the retirees and surviving spouses during fiscal year 2000. These benefits are fully funded by the District and accounted for on a pay-as-you-go basis through payments to the Plan. Cash reimbursements of these benefits totaled \$1,041,000 in 2000.

10. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code ("IRC") Section 457. The deferred compensation plan, available to all officers and employees, permits them to defer receipt of a portion of their salary until future years. The deferred compensation is not available to employees until retirement, termination, or certain other covered events.

On January 1, 1997, the District amended the Plan to conform to the Federal Small Business Protection Act of 1996 ("SBPA"). The amendment provided for the creation of a trust for the deferred compensation plan and all income attributable to those amounts. The funds are not subject to the claims of the District's general creditors. The Plan is no longer considered part of the District's assets.

11. Money Purchase Pension Plan

All District employees participate in the Money Purchase Pension Plan, which is a supplemental retirement program. 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, on a pay-as-you-go basis, an amount equal to 6.65% of covered employee's annual compensation (up to \$29,700 after deducting the first \$133 paid during each month) up to a maximum annual contribution of \$1,868. Non-represented employees receive an additional 1.627% of annual regular earnings up to \$160,000. 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 year ended June 30, 2000 and 1999 were \$7,411,000 and \$7,307,000, respectively. Money Purchase Pension Plan assets at June 30, 2000 and 1999 (excluded from the accompanying financial statements) were \$231,441,000 and \$213,289,000, respectively. At June 30, 2000, there were approximately 199 participants receiving benefits under this plan.

12. Board of Directors' Expenses

In May 2000, the annual reporting for the Board of Directors' travel and other business related expenses (Directors' expenses) was changed from a calendar to a fiscal year cycle. The total

San Francisco Bay Area Rapid Transit District

Notes to Financial Statements

Directors' expenses for the fiscal year ended June 30, 2000 amount to \$34,000, which include \$15,000 expenses incurred from January 1, 2000 through June 30, 2000.

13. 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.

Lease commitments

The District leases certain facilities under operating leases with original terms ranging from one to five 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, 2000 are as follows (in thousands):

| | Operating Leases |
|------------------------|-----------------------------|
| 2001 | \$ 2,474 |
| 2002 | 2,267 |
| 2003 | 2,114 |
| 2004 | 306 |
| 2005 | 32 |
| Total minimum payments | <u>\$ 7,193</u> |

Rent expense under all operating leases was \$2,581,000 and \$2,390,000 for the years ended June 30, 2000 and 1999, respectively.

Sale/Leaseback

On March 30, 1995, the District entered into an agreement with a Swedish corporation to sell 25 newly manufactured C-2 rail cars for \$50,383,000 and simultaneously entered into an agreement to lease them back. The lease agreement was effective on the closing date of September 15, 1995, and continues through January 15, 2011.

The District recognized a gain on the sale of approximately \$2,000,000 which is equal to the amount of cash received on the sale. The gain was deferred and is being amortized over 30 years. In addition, the District recorded a receivable of \$48,368,000 and a capital lease obligation of the same amount. The receivable and the liability will be reduced by a corresponding amount over the term of the lease. At June 30, 2000 and 1999, the balances of the receivable as well as the liability were \$33,121,000 and \$36,276,000, respectively. Other than the cash received upon the sale, no cash will be exchanged between the parties in settlement of the receivable and liability.

Accumulated depreciation related to the C-2 rail cars covered by the sale/leaseback agreement totaled \$9,025,000 and \$7,246,000 as of June 30, 2000 and 1999, respectively.