

**SAN FRANCISCO
BAY AREA WATER EMERGENCY
TRANSPORTATION AUTHORITY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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EMERGENCY TRANSPORTATION AUTHORITY
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
San Francisco Bay Area Water Emergency Transportation Authority
San Francisco, California

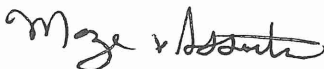
We have audited the basic financial statements of the San Francisco Bay Area Water Emergency Transportation Authority (Authority) as of and for the year ended June 30, 2012, as listed in the table of contents. These basic financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards for 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 as to 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the financial position of the Authority at June 30, 2012, and the respective results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2012 on our consideration of the Authority 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this information in accordance with generally accepted auditing standards 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 audit 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.

A handwritten signature in black ink that reads 'Maze & Associates'.

October 5, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the San Francisco Bay Area Water Emergency Transportation Authority (Authority) activities and financial performance provides an introduction to the financial statements of the Authority for the fiscal year ended June 30, 2012. The information presented herein should be considered in conjunction with the accompanying financial statements.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements required under GASB 34 include:

Statement of Net Assets—presents the financial position of the Authority, including assets, liabilities and net assets. The difference between this statement and the traditional Balance Sheet is that net assets (fund equity) are shown as the difference between total assets and total liabilities.

Statement of Activities—presents revenues, expenses and changes in net assets for the fiscal year. It differs with the traditional Statement of Revenues and Expenses in that revenues and expenses directly attributable to operating programs are presented separately from investment income and financing costs.

Statement of Cash Flows—provides itemized categories of cash flows. This statement differs from the traditional Statement of Cash Flows in that it presents itemized categories of cash in flows and out flows instead of computing the net cash flows from operation by backing out non-cash revenues and expenses from net operating income. In addition, cash flows related to investments and financing activities are presented separately.

FINANCIAL POSITION SUMMARY

The Authority's assets exceeded liabilities by \$91.8 million at June 30, 2012, a \$13.9 million increase from June 30, 2011.

A condensed summary of the Authority's net assets (in thousands) at June 30 is shown below:

	<u>2012</u>	<u>2011</u>
Assets:		
Current and other assets	\$ 82,317	\$ 83,194
Capital assets	80,358	72,292
Total assets	<u>162,675</u>	<u>155,486</u>
Liabilities:		
Current liabilities	6,178	7,736
Unearned/deferred revenue	64,647	66,419
Other noncurrent liabilities	89	3,435
Total liabilities	<u>70,914</u>	<u>77,591</u>
Net Assets:		
Invested in capital assets, net of debt	80,358	72,292
Restricted	11,358	5,348
Unrestricted reserves	45	255
Total net assets	<u>\$ 91,761</u>	<u>\$ 77,895</u>

The largest portion of the Authority's net assets (87.57% at June 30, 2012) represents its investment in capital assets, less the related debt outstanding used to acquire those capital assets. These capital assets are used to provide services to its passengers.

An additional portion of the Authority's net asset (12.38% at June 30, 2012) represents resources that are subject to external restrictions imposed by creditors, grantors and contributors that restrict the use of net assets. The remaining unrestricted net assets (.05% at June 30, 2012) may be used to meet the Authority's ongoing obligations.

FISCAL YEAR 2012 FINANCIAL HIGHLIGHTS

- Total revenues were \$29.5 million, comprising of \$12.5 million capital contribution and \$17.0 million program operating revenues.
- Program operating expenses before depreciation were \$11.2 million.
- Total assets increased by \$7.2 million (\$162.7 million in 2012 compared to \$155.5 million in 2011).
- Total liabilities decreased by \$6.7 million (\$70.9 million in 2012 compared to \$77.6 million in 2011).

PROGRAM INITIATIVES AND OUTLOOK

As of April 2011, with the transfer of the Alameda/Oakland and Alameda Harbor Bay ferry services from the City of Alameda, the Authority was transformed from primarily a planning agency to an operations and planning agency. 2012 was the Authority's first full year of operations

In October 2011, the Vallejo City Council and the Authority's Board of Directors approved the transition agreement for the Vallejo ferry service. Transition of the Vallejo ferry service was completed on July 1, 2012.

On June 4, 2012, the Authority initiated its first expansion ferry service to South San Francisco. The South San Francisco ferry service provides weekday peak-period service between Alameda, Oakland and Oyster Point in South San Francisco.

As of January 1, 2012, Blue and Gold Fleet (B&GF) is under contract with the Authority to provide operation and maintenance services for the Authority's entire ferry system. The initial contract term is for a period of five years with options for up to five additional years (for a total of up to ten years) to be exercised at the sole discretion of the Authority.

During 2012, the Authority expended \$12.5 million on capital activities. This included the following major projects:

- Construction of the South San Francisco Ferry Terminal (\$8.5 million).
- Construction of the Pier 9 Layover Berthing Facility (\$1.4 million).
- S.F. Berthing Expansion – Environmental/Conceptual Design (\$1.0 million)
- Planning Studies, Environmental Review and Conceptual Design for Potential Future Ferry Services – Cities of Berkeley, Richmond, Antioch, Hercules, Martinez and Redwood City (\$560,000)

During 2012, completed projects totaling \$30.9 million were closed from construction in progress to their respective capital accounts. The major completed projects included:

- Environmental Review, Design and Construction of the South San Francisco Ferry Terminal (\$26.8 million).
- Pier 9 Layover Berthing Facility (\$3.3 million).

The Authority closed its first bond issue in August 2010, San Francisco Bay Area Water Emergency Transportation Authority Revenue Bond Series 2010. This bond issue, totaled \$10.1 million, provides funds for the implementation of the South San Francisco Ferry Terminal project. This bond will be repaid over a three year period. At June 30, 2012, \$2.1 million was outstanding.

The Authority will continue its efforts to manage the operation of the four San Francisco Bay Ferry Routes: Alameda/Oakland – San Francisco, Alameda Harbor Bay – San Francisco, Alameda/Oakland - South San Francisco and Vallejo – San Francisco. Significant effort will be made to fully integrate the Vallejo ferry service into the operation and to manage and monitor the first year of the new South San Francisco ferry service. Planning and administrative work will include evaluation of service fare structures, implementation of Clipper electronic fare collection throughout the system and investigation of opportunities to achieve operating system efficiencies. Effort will also be focused on implementing system rehabilitation and core capital infrastructure projects. Environmental and conceptual design work associated with potential future expansion services, development of plans to expand berthing capacity in downtown San Francisco and development of maintenance and operations facilities in the central bay and north bay will also continue. Development of these projects will be important to support the long-term vision and sustainability of the Authority’s planned ferry transportation services.

CONTACTING WETA'S FINANCIAL MANAGEMENT

The financial report is designed to provide citizens, taxpayers, creditors and interested parties with a general overview of the Authority’s finances. Questions or additional information about these statements should be directed to San Francisco Bay Area Water Emergency Transportation Authority, at 9 Pier, Suite 111, San Francisco, CA 94111.

SAN FRANCISCO BAY AREA WATER EMERGENCY TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Current Assets

Cash and cash equivalents (Note 3)	\$68,218,578
Receivables:	
Accounts	3,201,958
Interest	2,832
Security deposit	52,064
Prepaid expenses	<u>1,719,498</u>
Total Current Assets	<u>73,194,930</u>

Noncurrent Assets

Restricted cash and investments (Note 3)	<u>9,122,386</u>
Capital assets, net of accumulated depreciation (Note 4):	
Construction in progress	7,675,323
Depreciable capital assets, net	
Ferries	38,585,080
Terminal development rights	3,460,409
Ferry terminal and facilities	30,416,869
Float and equipment	<u>220,398</u>
Total Capital Assets	<u>80,358,079</u>
Total Noncurrent Assets	<u>89,480,465</u>
Total Assets	<u>162,675,395</u>

LIABILITIES

Current Liabilities

Accounts payable	2,570,545
Other accrued liabilities	1,438,215
Accrue interest payable	8,405
Compensated absences (Note 2C)	68,512
Unearned revenue - Prop 1B (Note 5C)	9,000,000
Current portion of long term obligation (Note 6)	<u>2,092,626</u>
Total Current Liabilities	<u>15,178,303</u>

Noncurrent Liabilities

Compensated absences (Note 2C)	88,812
Unearned revenue - State Appropriation (Note 5A)	2,242,801
Unearned revenue - Prop 1B (Note 5C)	<u>53,404,566</u>
Total Noncurrent Liabilities	<u>55,736,179</u>
Total Liabilities	<u>70,914,482</u>

NET ASSETS (Note 9)

Invested in capital assets, net of related debt	80,358,079
Restricted	11,357,875
Unrestricted	<u>44,959</u>
Total Net Assets	<u>\$91,760,913</u>

See accompanying notes to financial statements

SAN FRANCISCO BAY AREA WATER EMERGENCY TRANSPORTATION AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

OPERATING REVENUES

Fare Box Revenues	\$3,351,696
Other	<u>130</u>
Total Revenues	<u>3,351,826</u>

PROGRAM OPERATING EXPENSES

Personnel costs	1,605,575
Purchased transportation	5,621,421
Administrative expenses	1,290,390
Legal and consulting	2,429,275
Insurance premiums	274,205
Depreciation (Note 4)	<u>3,980,900</u>
Total Program Operating Expenses	<u>15,201,766</u>

OPERATING LOSS (11,849,940)

NONOPERATING REVENUES (EXPENSE)

Intergovernmental	13,071,182
Local Property Tax/Assessments	567,537
Loss on disposal of assets	<u>(448,555)</u>
Total Nonoperating Expenses	<u>13,190,164</u>

CAPITAL GRANTS 12,525,599

CHANGE IN NET ASSETS 13,865,823

BEGINNING NET ASSETS 77,895,090

ENDING NET ASSETS \$91,760,913

See accompanying notes to financial statements

SAN FRANCISCO BAY AREA WATER EMERGENCY TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$3,351,826
Payments to vendors and consultants	(11,484,312)
Payments to or on behalf of employees	<u>(1,583,801)</u>
Net cash flows from operating activities	<u>(9,716,287)</u>

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES

Intergovernmental collections	14,583,805
Local Property Tax/Assessments	<u>567,537</u>
Net cash flows from noncapital and related financing activities	<u>15,151,342</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Grant receipts used for capital activities	11,039,696
Payments for capital assets	(12,495,599)
Repayment of long-term obligation	(4,640,374)
Interest on long term debt	<u>(311,873)</u>
Net cash flows from capital and related financing activities	<u>(6,408,150)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest collections	<u>6,768</u>
Net cash flows from investing activities	<u>6,768</u>
Net cash flows	(966,327)
Cash and cash equivalents- beginning of year	<u>78,307,291</u>
Cash and cash equivalents - end of year	<u><u>\$77,340,964</u></u>

Reconciliation of operating loss to net cash flows from operating activities:

Operating loss	(\$11,849,940)
Depreciation	3,980,900
Change in assets and liabilities:	
Security deposits	(575)
Prepaid expenses	(1,600,470)
Accounts payable	(1,542,081)
Other accrued liabilities	1,274,105
Compensated absences	<u>21,774</u>
Net cash flows from operating activities	<u><u>(9,716,287)</u></u>

See accompanying notes to financial statements

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**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 1 – REPORTING ENTITY

The San Francisco Bay Area Water Emergency Transportation Authority (Authority) is the regional water transportation planning and operating agency for the San Francisco Bay Area. It was established by the California State Legislature on October 14, 2007. The Authority was designated by the State Legislature to plan and operate new and existing Alameda and Vallejo ferry services and coordinate the emergency activities of all water transportation and related facilities within the Bay Area region.

The Authority is governed by a board of directors comprised of appointees from the California State Governor's Office, the State Assembly, and the State Senate subcommittees. The Board, consisting of 5 members, is responsible for general operations of the Authority, reviewing and approving the annual budget, approving future contractual agreements with vendors, and appointment of the Executive Director.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform with generally accepted accounting principles applicable to governments. The following is a summary of the significant policies:

A. *Basis of Presentation*

The Authority's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary entity (the Authority). These statements include the financial activities of the overall Authority. Eliminations have been made to minimize the double counting of internal activities. These statements display the *business-type activities* of the Authority. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's business-type activities. Direct expenses are those that are specifically associated with a program or function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

**SAN FRANCISCO BAY AREA WATER
 EMERGENCY TRANSPORTATION AUTHORITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

The Authority uses an enterprise fund format to report its activities for financial statement purposes. The Authority's financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Grant reimbursements are recognized in the period the grant expenditures are made. Expenditures in excess of reimbursement are recorded as receivables if allowable under the grant, while excess reimbursements are recorded as deferred revenues.

C. Compensated Absences

Compensated absences comprise vacations and administration leave and are recorded as an expense when earned. The accrued liability for unused compensated absences is computed using current employee pay rates. Sick pay does not vest and is not accrued.

The changes in compensated absences were as follows:

Balance at June 30, 2011	\$135,550
Additions	199,642
Payments	<u>(177,868)</u>
Balance at June 30, 2012	<u>\$157,324</u>
Due within one year	<u>\$68,512</u>

D. Estimates

The Authority's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosure of contingent liabilities to prepare these financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Actual results could differ from those estimates.

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 3 - CASH AND INVESTMENTS

A. Carrying Amount and Fair Value

Cash and investments are recorded at fair value, which is the same as fair market value. The Authority's cash and investments were composed of cash in banks and the California Local Agency Investment Fund (LAIF), each of which is described below.

Cash and investments comprised of the following at June 30, 2012:

Cash and Investments:	
Cash in Banks	\$745,877
Cash in Banks for Prop 1B and Measure B	65,297,716
LAIF	2,174,985
Total Cash and Investments	\$68,218,578
Restricted Cash and Investments:	
Commercial Paper	\$9,122,386
Restricted Cash and Investments:	\$9,122,386

B. Investments Authorized by the Authority

The California Government Code allows the Authority to invest in the following types of investments.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 years	N/A	No Limit	No Limit
U.S. Government Agency Securities and Government Sponsored Enterprise Agencies	N/A	N/A	No Limit	No Limit
State Obligations	5 years	N/A	No Limit	No Limit
Local Agency Obligations	5 years	N/A	No Limit	No Limit
Negotiable Certificates of Deposit	N/A	Highest	30%	No Limit
Money Market Mutual Funds	N/A	Highest	20%	10%
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 Days	A-1	25%	10%
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$50,000,000 per account	\$50,000,000 per account

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. *Investments Authorized by Debt Agreements*

The Authority must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Authority fails to meet obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Authority ordinance, bond indentures or State statute.

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 in Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 years	N/A	No Limit	No Limit
U.S. Government Agency Securities and Government Sponsored Enterprise Agencies	N/A	N/A	No Limit	No Limit
State Obligations	5 years	N/A	No Limit	No Limit
Local Agency Obligations	5 years	N/A	No Limit	No Limit
Negotiable Certificates of Deposit	N/A	Highest	30%	No Limit
Money Market Mutual Funds	N/A	Highest	20%	10%
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 Days	A-1	25%	10%
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$50,000,000 per account	\$50,000,000 per account

D. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of the Authority's investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments in the LAIF investment pool and commercial paper are approximately 268 days and 15 days, respectively.

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 3 - CASH AND INVESTMENTS (Continued)

E. Credit and Concentration Risk

Generally, credit risk is the risk that an issuer of an investment fails to fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF is not rated by a nationally recognized statistical rating organization. Commercial paper was rated A1+ at year end.

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment funds that represent 5% or more of total investments at June 30, 2012 were commercial paper held with the financial institution, U.S. Bank in the amount of \$9,122,386.

F. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority may not be able to recover its deposits or may not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its agent having a fair value of 110% to 150% of the Authority's cash on deposit. All of the Authority's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the Authority's name.

G. Local Agency Investment Fund

The Authority is a voluntary participant in LAIF. LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The carrying value of LAIF approximates fair value.

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 4 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation expense is calculated on the straight line method over the estimated useful lives of assets, which are as follows:

Ferries	25 years
Ferry Terminal/Facilities	50 years
Terminal Development Rights	55 years

Construction in Progress Net Financing Costs - Interest incurred and the amortization of issuance costs on debt used to finance projects are netted with interest earned on unspent proceeds of the debt. These "Net Financing Costs" are capitalized and added to construction in progress during the construction period to reflect the true project costs, including financing costs. During the year ended June 30, 2012, the Authority capitalized interest cost of \$298,876, net of interest earned on unexpended proceeds of \$5,574.

Capital Assets activity was as follows for the year ended June 30, 2012:

	June 30, 2011	Additions	Transfers	Retirements	June 30, 2012
Capital assets not being depreciated:					
Construction in progress	\$26,007,892	\$12,525,599	(\$30,858,168)		\$7,675,323
Total assets not being depreciated	<u>26,007,892</u>	<u>12,525,599</u>	<u>(30,858,168)</u>		<u>7,675,323</u>
Capital assets being depreciated:					
Ferries	45,219,991		158,510	(\$538,374)	44,840,127
Terminal development rights	3,660,000				3,660,000
Ferry terminal and facilities			30,522,220		30,522,220
Floats and equipment	90,000		177,438		267,438
Total assets being depreciated	<u>48,969,991</u>		<u>30,858,168</u>	<u>(538,374)</u>	<u>79,289,785</u>
Less accumulated depreciation for:					
Ferries	(2,552,095)	(3,762,771)		59,819	(6,255,047)
Terminal development rights	(133,045)	(66,546)			(199,591)
Ferry terminal and facilities		(105,351)			(105,351)
Float	(808)	(46,232)			(47,040)
Total accumulated depreciation	<u>(2,685,948)</u>	<u>(3,980,900)</u>		<u>59,819</u>	<u>(6,607,029)</u>
Net capital assets being depreciated	<u>46,284,043</u>	<u>(3,980,900)</u>	<u>30,858,168</u>	<u>(478,555)</u>	<u>72,682,756</u>
Capital Assets, Net	<u>\$72,291,935</u>	<u>\$8,544,699</u>		<u>(\$478,555)</u>	<u>\$80,358,079</u>

SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 5 – MAJOR FUNDING SOURCES

A. State Appropriation

The Authority received a single \$12,000,000 appropriation as initial funding for the study and planning of water transportation services in the San Francisco Bay. On October 14, 2007, the Senate bill stated that the Water Transit Authority's funds will be transferred to the Authority. As of June 30, 2012, the appropriation has a balance as follows:

Original appropriation	\$12,000,000
Net expenses as of 6/30/12	<u>(9,765,273)</u>
Unearned appropriation as of beginning of period	2,234,727
Fiscal year 2012:	
Interest income	<u>8,074</u>
Unearned appropriation as of period end	<u><u>\$2,242,801</u></u>

B. Regional Measure

Regional Measure 1 (RM1) - In November 1988, Bay Area voters approved Regional Measure 1 (RM1), which authorized a standard auto toll of \$1 for all seven state-owned Bay Area toll bridges. The additional revenues generated by the toll increase were identified for use for certain highway and bridge improvements, public transit rail extensions, and other projects that reduce congestion in the bridge corridors. The Authority is receiving the portion of RM1 funding intended for water transportation services, facilities and vessels. As of June 30, 2012, the Authority had expended total allocated funds of \$2,159,313, in which \$1,605,598 was used for operations and \$553,715 was used for capital. A total of \$2,030,464 was received in cash and the balance, \$28,199, is in a receivable balance.

Regional Measure 2 (RM2) - On March 2, 2004, voters approved Regional Measure 2 (RM2), raising the tolls on the seven State-owned toll bridges in the San Francisco Bay Area by \$1. This toll increase is to fund various transportation projects within the region that have been determined to reduce congestion or to improve travel in the toll bridge corridors. The Authority is receiving the portion of RM2 funding intended for water transportation services, facilities and vessels. The Authority was allocated \$13,573,200 to be used for operations, \$5,000,000 to be used for debt service and \$1,074,594 to be used for capital projects in the year ended June 20, 2012. As of June 30, 2012, the Authority had expended total allocated funds of \$12,228,284, had received \$11,718,644 in cash and had a receivable balance of \$509,639.

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 5 – MAJOR FUNDING SOURCES (Continued)

C. Proposition 1B (CTSGP-RPWT) Projects

Pursuant to state Proposition 1B, the Authority is the eligible recipient of funds from the California Transit Grant Program, Regional Public Waterborne Transit (CTSGP-RPWT) for public transportation ferries and related facilities and services and emergency water transportation disaster recovery within the bay area region. As of June 30, 2012, the Authority had been awarded \$75 million in Proposition 1B allocations.

With the enactment of AB1203 on January 1, 2010, the Authority was entitled to receive all awarded Proposition 1B allocations not previously invoiced or paid and as of April 2010, the Authority received \$44,679,939. During fiscal 2010-11, the Authority received an additional \$25,000,000 in allocations. Unspent grant receipts have been reported as unearned revenue in the accompanying financial statements.

A summary of the Authority's Proposition 1B projects for the year ended June 30, 2012 are as follows:

Project Name	Grant Allocations	Expended in Fiscal Year		Unearned Revenue at 06/30/12
		Prior years	2011-2012	
Preliminary Investigation & Environmental Review of Redwood City, Richmond, Antioch and Martinez	\$3,250,000	(\$251,466)	(\$290,322)	\$2,708,212
Final Design for Berkeley and Hercules Terminals	5,500,000	-	(86,738)	5,413,262
Berkeley Terminal and Vessel Construction	5,000,000	-		5,000,000
South San Francisco Terminal and Vessel Construction	10,000,000	(9,173,806)	(169,250)	656,944
Maintenance Barge/Facility and Emergency Floats	15,250,000	(1,234,426)	(1,065,771)	12,949,803
Central Bay and North Bay Maintenance Facilities	27,000,000	-		27,000,000
San Francisco Berthing Expansion	9,000,000	(223,562)	(227,351)	8,549,087
Total	\$75,000,000	(\$10,883,260)	(\$1,839,432)	62,277,308
Add interest earned in prior years				68,018
Add interest earned in current year				59,240
Unearned Revenues				\$62,404,566

**SAN FRANCISCO BAY AREA WATER
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NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 5 – MAJOR FUNDING SOURCES (Continued)

D. Measure B Program

Measure B, approved by the voters of Alameda County in 2000, accounts for a pro-rata share of the one-half sales tax, funds to be collected for a duration of 20 years. This measure was adopted with the intention that the funds generated by the additional sales tax will not fund expenditures previously paid for by property taxes, but rather, would be used for additional projects and programs.

In fiscal year 2011, the transfer of the Alameda/Oakland Ferry Service and the Alameda Harbor Bay Ferry Service from the City of Alameda and the Alameda Reuse and Redevelopment Authority to the Authority included Measure B monies. Measure B monies are used to finance the facilities and operations of the ferry services. During the year ended June 30, 2012, the Measure B program activity was as follows:

Measure B Program Revenues:	
Measure B Sales Tax Revenue	\$838,520
Interest Earned	1,755
Total Measure B Revenues	840,275
 Measure B Program Expenditures:	
Vessel Engine Overhaul - Peralta	(120,597)
Vessel Mid-Life Refurbishment - Bay Breeze	(10,664)
Harbor Bay Pile Repair	(1,639)
Alameda Parking Lots Rehabilitation	(30,158)
Total Measure B Expenditures	(163,058)
 Net change in Net Assets	 677,217
 Unspent Measure B Revenues as of Beginning of the Year:	 1,825,246
 Unspent Measure B funds as of the End of the Year:	 \$2,502,463
 Reserves:	
Capital Fund Reserves	\$2,502,463
 Unspent Measure B funds as of the End of the Year:	 \$2,502,463

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EMERGENCY TRANSPORTATION AUTHORITY
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For the Year Ended June 30, 2012**

NOTE 5 – MAJOR FUNDING SOURCES (Continued)

Measure B Reserves - Pursuant to its agreement with the Alameda County Transportation Commission, the Authority is to expend Measure B funds expeditiously and no unexpended funds beyond those included in reserves as defined in the Agreement are allowed to be retained by the Authority. Specific reserves are described as follows:

Capital Fund Reserve – The Authority may establish a specific capital fund reserve to fund specific large capital projects that could otherwise not be funded with a single year worth of Measure B funds. The Authority may collect capital funds during not more than three fiscal years and shall expend all reserve funds prior to the end of the third fiscal year immediately following the fiscal year during which the reserve was established.

As of June 30, 2012, the Authority's Capital Fund Reserve amounted to \$2,502,463 and has been retained to fund the following capital projects relative to the Alameda ferry services:

- Mid-Life Repower and Refurbishment of the Bay Breeze
- Purchase Replacement Ferry Vessel

Operations Fund Reserve - The Authority may establish and maintain a specific reserve to address operational issues including fluctuations in revenues and to help maintain transportation operations. The total amount retained may not exceed 50 percent of anticipated annual combined revenues from Measure B and VRF funds. This fund may be a revolving fund and is not subject to an expenditure timeframe. As of June 30, 2012, the Authority has not established an Operations Fund Reserve.

Undesignated Fund Reserve - The Authority may establish and maintain a specific reserve for transportation needs over a fiscal year such as matching funds for grants project development work studies for transportation purposes or contingency funds for a project or program. This fund may not contain more than 10 percent of annual pass-through revenues. As of June 30, 2012, the Authority has not established an Undesignated Fund Reserve.

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 6 – LONG TERM OBLIGATION

On August 3, 2010, the Authority issued a \$10.1 million revenue bond to finance the construction of the South San Francisco ferry terminal. The bond bears interest at 4.632 percent and matures on June 1, 2013 with principal amounts due on June 1, and interest payments due on June 1 and December 1 of each year. The bond is payable from a pledge of RM2 Operating Revenues and Measure A Revenues. On June 1, 2012, the Authority amended their long term obligation agreement to provide for a revised Mandatory Sinking Payment schedule that adds a principal payment of \$1,273,374 due June 29, 2012, which reduces the outstanding balance due upon maturity.

	Balance June 30, 2011	Retirements	Balance June 30, 2012	Current Portion
Revenue Bond,				
Series 2010	\$6,733,000	(\$4,640,374)	\$2,092,626	\$2,092,626
Total	<u>\$6,733,000</u>	<u>(\$4,640,374)</u>	<u>\$2,092,626</u>	<u>\$2,092,626</u>

The terms of the indenture state that following resources are pledged to repay the outstanding debt service on the bonds: Regional Measure 2 operating revenues and all Measure A revenues and reserve funds held by the trustee for the payment of principal and interest on the bonds.

	For The Year Ended June 30, 2012
Pledged Revenue:	
RM2 revenues	\$5,000,000
Measure A	4,531,356
Total Revenues	<u>\$9,531,356</u>
Debt service:	
Principal repayments	\$4,640,374
Interest expense	311,873
Debt Service	<u>\$4,952,247</u>
Coverage	<u>192%</u>
Restricted cash and investments	June 30, 2012
Interest Account	\$12,558
Measure A Holding Fund	5,854,362
	<u>\$5,866,920</u>

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 6 – LONG TERM OBLIGATION (Continued)

Annual debt service requirements are shown below with specified repayment terms:

For the Year Ending June 30	Principal	Interest	Total
2013	\$2,092,626	\$101,518	\$2,194,144

NOTE 7 – LEASE OBLIGATION

The Authority and Port of San Francisco entered into a lease agreement on December 1, 2011. The agreement allows the Authority to lease three parcels for office space, nonexclusive apron space and the exclusive use of lay berth area for ferry berthing. The annual lease payment is \$244,170 and each parcel amount is subject to a 3% annual adjustment with a minimum adjustment of \$0.01 (1 cent). The lease expires on November 30, 2016.

NOTE 8 – RISK MANAGEMENT

The Authority purchased the following insurance policy covered at June 30, 2012:

Type of Coverage	Limit	Deductible
	\$1,000,000 to	
General liability	\$2,000,000	\$2,500
Workers Compensation	1,000,000	
Employment practice	2,000,000	15,000
Direct physical loss or damage (excluding earthquake or flood)	25,000,000	1,000
<u>Type of Coverage (related to Ferry Services)</u>		
	\$1,000,000 to	
Marine terminal commercial liability	\$2,000,000	\$2,500 10,000 to
Dock, pilings & ramps	18,973,405	20,000
Excess marine liability	9,000,000	

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 9 – NET ASSETS

Net Assets are the excess of all the Authority’s assets over all its liabilities, regardless of fund. The Authority’s Net Assets are reported under the caption described below:

Invested in Capital Assets, net of related debt is the current net book value of the Authority’s capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes unexpended Measure B revenues and Measure A revenues. Measure A funds are pledged for repayment of debt, however once the debt has been repaid Measure A funds are available and can be used for any lawful purpose.

Unrestricted describes the portion of Net Assets which may be used for any Authority purpose.

NOTE 10 - PENSION PLAN

All Authority employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), a cost-sharing multiple-employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The Authority’s employees participate in the Miscellaneous Employee Plan. Benefit provisions under the Plan are established by State statute and Authority resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CALPERS. The Plan’s provisions and benefits in effect at June 30, 2012, are summarized as follows:

	<u>Miscellaneous</u>
Benefits vesting schedule	5 years service
Benefits payments	Monthly for life
Retirement age	50
Monthly benefits, as a % of annual salary	2 % - 2.5%
Required employee contribution rate	8.00%
Required employer contribution rate	14.956%

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the Authority’s total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the Authority must pay annually to fund an employee’s projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The Authority does not have a net pension obligation since it pays these actuarially required contributions monthly.

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 10 - PENSION PLAN (Continued)

CALPERS uses a market related value method of valuing the Plan's assets. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

An investment rate of return of 7.75% is assumed, including inflation at 3%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years.

Actuarially required contributions for fiscal years 2012, 2011 and 2010 were \$288,828, \$235,117, and \$210,310, respectively. The Authority made these contributions as required, together with certain immaterial amounts required as the result of the payment of other additional employee compensation.

As required by new State law, effective July 1, 2005, the Authority's Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERS to join a new State-wide pool. One of the conditions of entry to the pool was that the Authority true-up any unfunded liabilities in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The Authority will fund the liability through increased future contribution rates.

The State-wide pool's actuarial value and funding progress over the past three years are set forth below at the actuarial valuation date of June 30:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2008	\$1,537,909,933	\$1,337,707,835	\$200,202,098	87.0%	\$333,307,600	60.1%
2009	1,834,424,640	1,493,430,831	340,993,809	81.4%	355,150,151	96.0%
2010	1,972,910,641	1,603,482,152	369,428,489	81.3%	352,637,380	104.8%

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA, 94229-2709.

NOTE 11 – POSTEMPLOYMENT HEALTH CARE BENEFITS

During fiscal year 2009, the Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB).

By Board resolution and through agreements with its labor unit, the Authority provides certain health care benefits for retired employees (spouse and dependents are not included) under third-party insurance plans.

**SAN FRANCISCO BAY AREA WATER
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NOTE 11 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

The Authority pays the minimum of PEMHCA community rated plans for retired employees' medical premiums, in which the benefits continue to the surviving spouse. The Authority will also provide a longevity stipend for retired employees who have at least 10 years of service, by paying up to the PERSCare single premium for single coverage only.

As of June 30, 2012, three participants were eligible to receive benefits.

A. Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of the June 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.25% investment rate of return, (b) 3.25% projected annual salary increase, and (c) 3% health inflation increase. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The Authority's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 28 year closed amortization period.

In accordance with the Authority's budget, the annual required contribution (ARC) is to be funded throughout the year as a percentage of payroll. Concurrent with implementing Statement No. 45, the Authority's Board passed a resolution to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administered by CalPERS, and is managed by an appointed board not under the control of Authority Board. This Trust is not considered a component unit by the Authority and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
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NOTE 11 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

B. Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2012, the Authority contributed the ARC amounting to \$55,871 to the plan which represented 4.8% of the \$1.16M of covered payroll. The Authority also contributed additional funds to CERBT representing funds accumulated in prior years. As a result, the Authority did not have a Net OPEB Obligation at June 30, 2012, as presented below:

	Amounts
Net OPEB Obligation June 30, 2011	\$0
Annual required contribution (ARC)	55,871
Contributions to CERBT	(55,871)
Change in net OPEB Liability	0
Net OPEB Obligation June 30, 2012	\$0

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated June 2011, amounted to \$2,542,000 and was unfunded since no assets had been transferred into CERBT as of that date. However, as of June 30, 2012, the Authority transferred additional contributions to CERBT, which along with investment earnings totaled \$177,574 and reduced the unfunded actuarial accrued liability.

The Plan's estimated annual required contributions and actual contributions for the years ended June 30, 2010, 2011 and 2012 are set forth below:

Fiscal Year	Estimated Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/2010	\$36,718	\$82,718	225%	\$0
6/30/2011	41,081	41,081	100%	0
6/30/2012	55,871	55,871	100%	0

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 11 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
June 30, 2009	\$0	\$1,962,000	\$1,962,000	0.00%	\$720,807	272.19%
June 30, 2011	1,315,000	2,542,000	1,227,000	51.73%	1,242,000	98.79%

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Authority participates in Federal and State and local grant programs. These programs have been audited by the Authority's independent accountants through the fiscal year ended June 30, 2012, in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Authority expects such amounts, if any, to be immaterial.

At June 30, 2012, the Authority had made commitments for construction of the following projects:

<u>Project</u>	
Clay Street Passenger Float Replacement	\$2,103,447
Channel Dredging - Harbor Bay	32,758
Vessel Engine Overhaul - Encinal	5,235,596
Vessel Mid-Life Refurbishment - Bay Breeze	39,953
Antioch - Environ/Conceptual Design	652,496
Berkeley/Albany Terminal	84,980
Central Bay Operations & Maint. Facility	232,960
Hercules - Prelim Investigation/Environ	17,742
Martinez - Environ/Conceptual Design	611,402
Pier 9 Berthing Facility	27,323
Redwood City - Environ/Conceptual Design	543,114
Richmond - Environ/Conceptual Design	439,451
SF Ferry Terminal Expansion	863,542
South San Francisco Ferry Terminal	737,204
Total	<u>\$11,621,968</u>

**SAN FRANCISCO BAY AREA WATER
EMERGENCY TRANSPORTATION AUTHORITY
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NOTE 13 – SUBSEQUENT EVENT

Baylink Ferry Service

On January 1, 2008, the State of California’s Senate Bill 976 became law repealing prior legislation that created the San Francisco Bay Area Water Transit Authority (WTA) and established a new agency, the San Francisco Bay Area Water Emergency Transportation Authority (WETA). WETA has specified powers and duties, including but not limited to, taking over the City of Vallejo’s (City) Baylink ferry service operation and facilities and coordinating the emergency activities of water transportation on the bay.

The impact of the law to WETA’s ferry service may include, but is not limited to the transfer of ownership of the City’s ferries and ferry assets; transfer of grant funding for current and future transit operation and capital funding and financial impact to transit-oriented development projects currently underway and planned for the future.

“Clean up” legislation to this law, Senate Bill 1093 (Wiggins), was approved and enacted into law on September 27, 2008 clarifying the planning, management, and operations responsibilities of the water transportation services vested in the WETA.

The City of Vallejo and the WETA worked collaboratively as required by this legislation and the Transition Plan was adopted by the WETA Board on June 8, 2009. The WETA Board of Directors approved the Vallejo Transfer Agreement on October 6, 2011, and the Vallejo City Council approved it on October 11, 2011. WETA legal counsel and staff continued work to finalize the document for execution and on the necessary due diligence and pre-closing activities required prior to the close of escrow and transfer of the service to WETA. The system transfer was completed on July 1, 2012.