Agenda Item 9

Bay Area Headquarters Authority

Financial Statements

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

Bay Area Headquarters Authority
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Independent Auditor's Report

To the Governing Board of the
Bay Area Headquarters Authority:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to BAHA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BAHA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BAHA at June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

The accompanying management's discussion and analysis on pages 3 through 6 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Noevember 5, 2014

Management's Discussion and Analysis

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

MTC and the Bay Area Toll Authority (BATA) executed a Joint Exercise of Power Agreement on September 28, 2011 to establish BAHA. BAHA is authorized to take all actions necessary to plan, acquire, develop, operate, and maintain BAHA's office space and facilities. However, BAHA may not issue bonds or other forms of indebtedness. On October 14, 2011 BAHA acquired a property located on 375 Beale Street, San Francisco, California (the "Building") for the purpose of establishing a Bay Area regional headquarters for MTC, Bay Area Air Quality Management District (BAAQMD), and the Association of Bay Area Governments (ABAG).

There are six members on the governing board of BAHA. BAHA's board consists of four MTC Commissioners and two BATA Commissioners: the MTC Commission chair and vice chair, BATA Oversight Committee's chair and vice chair as well as the MTC Administration Committee's chair and vice chair. Neither MTC nor BATA is responsible for any debt, liabilities or obligations of BAHA.

A. Financial Highlights

BAHA has contracted with consulting firms to perform environmental analysis, seismic retrofit design, and working space planning and design for the Building. Demolition and renovation were in process during fiscal year 2014. It is estimated that MTC, BAAQMD and ABAG can move into the Building at the end of calendar year 2015.

In October 2013, BAHA received a $30 million contribution from BATA. This contribution was used by BAHA to purchase a Certificate of Participation (COP) issued by BAAQMD.

ABAG has agreed to pay $4.2 million to BAHA in installments over the period from fiscal year 2014 to 2021 for its share of tenant improvements to the Building with the first installment of $400,000 in fiscal year 2014.

B. Overview of the BAHA Financial Statements

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

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

The *Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows* are presented on pages 7 – 9 of this report.

C. Financial Analysis

Statement of Net Position

The following table is a summary of BAHA's statement of net position as of June 30 for the last three fiscal years:

	2014	2013	2012
Cash and investments	$ 119,459,990	$ 114,696,693	$ 73,518,877
Receivables	122,600	129,743	123,564
Other assets	118,515	263,353	119,532
Due from other fund	400,000	-	-
Capital assets	131,881,565	101,242,603	93,350,432
Total assets	251,982,670	216,332,392	167,112,405
Other liabilities	8,759,928	1,546,024	372,171
Long term liabilities	400,000	-	-
Total liabilities	9,159,928	1,546,024	372,171
Net position			
Invested in capital assets	131,881,565	101,242,603	93,350,432
Restricted for capital projects	110,941,177	113,543,765	73,389,802
Total net position	$ 242,822,742	$ 214,786,368	$ 166,740,234

Cash and investments increased by $4,763,296 in fiscal year 2014 and $41,177,816 in fiscal year 2013. The increase in fiscal year 2014 is mainly due to the $30 million contribution from BATA reduced by costs incurred for the Building's demolition and renovation. The increase in fiscal year 2013 is a result of contributions from BATA reduced by costs incurred in environmental analysis, seismic retrofit design, and working space planning and design for the Building.

The receivables due from tenants decreased by $7,143 in fiscal year 2014 and increased by $6,179 in fiscal year 2013. The decrease in fiscal year 2014 is mainly due to cancelation of the lease agreement with Unisite in December 2013 offset by an increase of Consumer Price Index (CPI) in rent calculation. The increase in fiscal year 2013 is due to an increase of CPI in rent calculation and miscellaneous receivable from the property management firm. Other assets decreased by $144,838 from 2013 to 2014 and increased by $143,821 from 2012 to 2013. The decrease in fiscal year 2014 is mainly due to the amortization of BAHA's prepaid general and construction insurance in the fiscal year. The increase in fiscal year 2013 is a result of BAHA's purchase of construction insurance coverage through December 2014. BAHA had $400,000 due from another fund at June 30, 2014 as the first installment for tenant improvements.

Capital assets increased by $30,638,962 in fiscal year 2014 and $7,892,171 in fiscal year 2013. The increase in fiscal year 2014 is due to the high volume of work for demolition and renovation of the

Building. The increase in fiscal year 2013 is the result of the environmental analysis, seismic retrofit design, and working place planning and design for the Building performed in that fiscal year.

Total liabilities increased by $7,213,904 and $1,173,853 in fiscal year 2014 and 2013 respectively. The increase in both fiscal years is due to the increasing volume of design and development work of the Building in these two fiscal years.

Statement of Revenues, Expenses, and Net Position

The following table is a summary of BAHA's statement of revenues, expenses, and net position for the last three fiscal years ended June 30:

	2014	2013	2012
Operating revenue			
Rental income	$ 1,477,082	$ 1,486,505	$ 1,060,076
Total operating revenue	1,477,082	1,486,505	1,060,076
Operating expenses			
Property management	104,462	119,787	153,913
Other expenses	3,445,060	2,792,085	1,196,526
Total operating expenses	3,549,522	2,911,872	1,350,439
Nonoperating revenues			
Interest and miscellaneous income	108,814	76,460	4,082
Total nonoperating revenues	108,814	76,460	4,082
Capital contribution from BATA/MTC/SAFE	30,000,000	49,395,041	167,026,515
Increase in net assets	28,036,374	48,046,134	166,740,234
Net position - beginning	214,786,368	166,740,234	-
Net position - ending	$ 242,822,742	$ 214,786,368	$ 166,740,234

BAHA's operating revenues decreased by $9,423 in fiscal year 2014 and increased by $426,429 in fiscal year 2013. The decrease in fiscal year 2014 is a result of the lease agreement with Unisite being terminated in December 2013 due to renovation of the Building. The increase in fiscal year 2013 is due to a full year of rental income versus nine-months of rental income in fiscal year 2012.

Total operating expenses increased by $637,650 and $1,561,433 in fiscal years 2014 and 2013 respectively. The increase in fiscal year 2014 is mainly due to increases in professional fees and salaries of temporary staff. The increase in fiscal year 2013 is a result of twelve-months of expenses in fiscal year 2013 versus nine-months of expenses in fiscal year 2012.

BAHA's nonoperating revenues increased by $32,354 in fiscal year 2014 and $72,378 in fiscal year 2013. The increase in both fiscal years is a result of an increase in interest income from a larger investment balance from BATA's fiscal years 2014 and 2013 contributions.

D. Notes to the Financial Statements

The notes to the financial statements, beginning on page 10, provide additional information that is essential to a full understanding of the data provided in this management discussion and analysis and the financial statements.

E. Economic Factors

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

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

Requests for information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer and Auditor, Bay Area Headquarters Authority, 375 Beale Street, San Francisco, CA 94105.

Bay Area Headquarters Authority
Statement of Net Position
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash - restricted	$ 13,080,263	$ 6,317,213
Short term investments - restricted	76,379,727	108,379,480
Accounts receivable	122,600	129,743
Accrued interest	16,854	10,128
Due from other fund	400,000	-
Prepaid expenses	101,661	253,225
Total current assets	90,101,105	115,089,789
Non-current assets:		
Long term investments - restricted	30,000,000	-
Capital assets, not being depreciated:		
Land	33,933,809	33,933,809
Building and improvements	94,670,510	63,950,608
Capital assets, net of accumulated depreciation:		
Building	3,277,246	3,358,186
Total non-current assets	161,881,565	101,242,603
TOTAL ASSETS	251,982,670	216,332,392
LIABILITIES		
Current liabilities:		
Accounts payable	8,593,835	1,471,790
Accrued liabilities	166,093	74,234
Total current liabilities	8,759,928	1,546,024
Non-current liabilities:		
Deposit payable	400,000	-
Total non-current liabilities	400,000	-
TOTAL LIABILITIES	9,159,928	1,546,024
NET POSITION		
Invested in capital assets	131,881,565	101,242,603
Restricted for capital projects	110,941,177	113,543,765
TOTAL NET POSITION	$ 242,822,742	$ 214,786,368

Bay Area Headquarters Authority
Statement of Revenues, Expenses and Change in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUE		
Rental income	$ 1,477,082	$ 1,486,505
TOTAL OPERATING REVENUE	1,477,082	1,486,505
OPERATING EXPENSES		
Salaries and benefits	941,488	634,861
Professional fees	662,902	435,366
Repairs and maintenance	378,332	348,449
Property management service	104,462	119,787
Insurance	246,119	283,122
Security	206,591	208,985
Cleaning service	51,175	50,509
Communication charges	21,058	-
Utilities	335,819	429,418
Depreciation	80,940	42,813
Other	88,827	26,715
Overhead	431,809	331,847
TOTAL OPERATING EXPENSES	3,549,522	2,911,872
OPERATING LOSS	(2,072,440)	(1,425,367)
NONOPERATING REVENUES		
Interest income	108,814	71,582
Miscellaneous revenues	-	4,878
TOTAL NONOPERATING REVENUES	108,814	76,460
LOSS BEFORE CAPITAL CONTRIBUTION	(1,963,626)	(1,348,907)
Capital contribution from BATA/MTC/SAFE	30,000,000	49,395,041
CHANGE IN NET POSITION	28,036,374	48,046,134
Net position - Beginning of year	214,786,368	166,740,234
Net position - Ending of year	$ 242,822,742	$ 214,786,368

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

	2014	2013
Cash flows from operating activities		
Cash receipts from rental income	$ 1,484,225	$ 1,480,326
Cash payments to suppliers and employees for services	(3,279,923)	(2,824,836)
Net cash used in operating activities	(1,795,698)	(1,344,510)
Cash flows from capital and related financing activities		
Contributions from BATA/MTC/SAFE	30,000,000	49,395,041
Acquisition of capital assets	(23,543,093)	(6,940,898)
Other	-	4,878
Net cash provided by capital and related financing activities	6,456,907	42,459,021
Cash flows from investing activities		
Proceeds from maturities of investments	289,241,824	304,941,868
Purchase of investments	(287,242,070)	(343,335,961)
Interest and dividends received	102,087	63,304
Net cash provided by/(used in) investing activities	2,101,841	(38,330,789)
Net increase in cash	6,763,050	2,783,722
Balances - Beginning of year	6,317,213	3,533,490
Balances - End of year	$ 13,080,263	$ 6,317,213

Reconciliation of operating income to net cash used in operating activities

	2014	2013
Operating loss	$ (2,072,440)	$ (1,425,367)
Adjustments to reconcile operating loss to net cash provided by/(used in) operating activities:		
Depreciation	80,940	42,813
Net effect of changes in:		
Accounts receivable	7,143	(6,179)
Prepaid expenses	151,564	(135,543)
Accounts payable	(54,764)	177,317
Accrued liabilities	91,859	2,448
Net cash used in operating activities	$ (1,795,698)	$ (1,344,510)

1. Reporting Entity

The Bay Area Headquarters Authority (BAHA) was established on September 28, 2011 pursuant to the California Joint Exercise of Powers Act, consisting of Sections 6500 through 6599.2 of the California Government Code to provide for the joint exercise powers common to Metropolitan Transportation Commission (MTC) and the Bay Area Toll Authority (BATA) where two or more public agencies may enter into an agreement to establish an agency to exercise any power common to the contracting parties. BAHA is authorized to plan, acquire and develop BAHA's office space and facilities; to employ agents and employees; to acquire, construct, provide for maintenance and operation of, or maintain and operate, any buildings, works or improvements; to acquire, hold or dispose of property wherever located, including the lease or rental of property; to receive gifts, contributions and donations of property, funds, services and other forms of assistance from persons, firms, corporation and any governmental entity. There are six members on the governing board of BAHA. BAHA's board consists of four MTC Commissioners and two BATA Commissioners: the MTC Commission chair and vice chair, BATA Oversight Committee's chair and vice chair as well as the MTC Administration Committee's chair and vice chair.

MTC was established under Government Code Section 66500 et seq. of the laws of the State of California (the State) in 1970 to provide comprehensive regional transportation planning for the nine counties that comprise the San Francisco Bay Area, which includes the City and County of San Francisco and the Counties of Alameda; Contra Costa, Marin, Napa, San Mateo, Santa Clara, Solano and Sonoma.

BATA was established pursuant to Chapter 4.3 of Division 17 of the California Streets and Highways Code Section 30950 et seq with the power under California Streets and Highways Code section 30951 to apply for, accept, receive, and disburse grants, loans, and other assistance from any agency of the United States or of the State and to plan projects within its jurisdiction under California Streets and Highways Code Section 30950.3. BATA is a blended component unit of MTC because the two governing boards have the same Commissioners.

BAHA is a discretely presented component unit of MTC because it does not qualify for blending under the provisions of GASB Statement No. 61, *The Financial Reporting Entity*. As such, it is presented as a proprietary fund in the component unit column of the government-wide financial statements of MTC. Neither MTC nor BATA have any obligations for BAHA's debt, liabilities or other obligations.

BATA's board authorized contributions of $167,026,515 and $48,780,971 to BAHA in October 2011 and April 2013 respectively for purposes of acquiring and developing an office facility at 375 Beale Street, San Francisco, California (the "Building"). In addition, BAHA also received contributions of $551,160 from MTC and $62,910 from SAFE in fiscal year 2013. The cost of the Building was $92,168,317. The difference between BATA's contribution and the cost of the Building is to be used towards renovating the Building. In October 2013, BATA's board authorized a contribution of $30 million to BAHA to purchase a Certificate of Participation (COP) issued by Bay Area Air Quality Management District (BAAQMD).

These standalone financial statements are for the benefit of the users of BAHA's financial statements who need more disclosure of information and to see the financial information segregated for this entity.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

BAHA follows Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management's Discussion & Analysis – for State and Local Governments* as amended.

New Accounting Standards

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

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

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

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that has issued obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. It also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This statement also provides

additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This standard was issued in April 2013 and is effective for reporting periods beginning after June 15, 2013. This standard did not have any impact on BAHA's financial statements.

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

Cash and Investments

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

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

- Securities of the U.S. Government or its agencies
- Securities of the State of California or its agencies
- Certificates of deposit (or time deposits) placed with commercial banks and savings and loans institutions
- Authorized pooled investment programs
- Commercial paper – Rated "A1 or P1"
- Municipal bonds
- Mutual funds – Rated "AAA"

Restricted Cash and Investments

Cash and investments are restricted as these assets are used for a specific purpose. BAHA's cash and investments are mainly restricted for renovation and tenant improvements of the Building.

Capital Assets

Capital assets, consisting of land, building and improvements, are reported at historical cost. Capital assets are defined by BAHA as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of three years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Land is not depreciated. The other properties are depreciated using the straight-line method over the following estimated useful lives:

	Years
Building and improvements	10-45
Office furniture and equipment	3-10

As of June 30, 2014, only part of the Building is occupied, therefore only the occupied portion of the Building is being depreciated.

Net Position

Net position represents residual interest in assets after liabilities are deducted. Net position consists of three sections: Invested in capital assets, as well as restricted and unrestricted assets, if applicable.

Use of Estimates

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

3. Deposit and Investment Risk Factors

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

i) Credit Risk

Fixed income securities are subject to credit risk, which is the possibility that the security issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

A bond's credit quality is an assessment of the issuer's ability to pay principal and interest on the bond. Credit quality may be evaluated by a nationally recognized independent credit-rating agency. The lower the rating is, the greater the chance (in the opinion of the rating agency) that the bond issuer will fail to meet its obligations or potentially default.

ii) Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be recovered. All securities are held in an independent depository account maintained with the Bank of New York Mellon (BONY) Bank and held in the name of BAHA. As a result, BAHA believes custodial credit risk is remote.

iii) Concentration of Credit Risk

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

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

	2014	2013
Federal Home Loan Bank (FHLB)	72	42
Federal National Mortgage Association (FNMA)	24	46
Federal Home Loan Mortgage Corporation (FHLMC)	102	72
Bay Area Air Quality Management District	14,369	-

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

	2014	2013	Rating*
Federal Home Loan Bank (FHLB)	20%	55%	AA+
Federal National Mortgage Association (FNMA)	17%	22%	AA+
Federal Home Loan Mortgage Corporation (FHLMC)	28%	23%	AA+
Bay Area Air Quality Management District	25%	-	-

*Independent agency credit-rating is the same in both fiscal years 2014 and 2013.

4. Capital Assets

A summary of capital assets for the period ended June 30, 2014 is as follows:

	Beginning Balance June 30, 2013	Increases	Decreases	Ending Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 33,933,809	$ -	-	$ 33,933,809
Building and improvements	63,950,608	30,719,902	-	94,670,510
Total capital assets, not being depreciated	97,884,417	30,719,902	-	128,604,319
Capital assets, being depreciated:				
Building	3,494,066	-	-	3,494,066
Total capital assets being depreciated	3,494,066	-	-	3,494,066
Less accumulated depreciation for:				
Building	135,880	80,940	-	216,820
Total accumulated depreciation	135,880	80,940	-	216,820
Total capital assets, being depreciated, net	3,358,186	(80,940)	-	3,277,246
Component Unit capital assets, net	$ 101,242,603	$ 30,638,962	-	$ 131,881,565

5. Lease

Operating Lease

In fiscal year 2012, in connection with the purchase of the Building, BAHA assumed the seller's lease agreements with the U.S. Government and Unisite, Inc.

The real property lease term with the U.S. Government is for five years for $1,460,386 a year and adjusted annually by multiplying the base rate by the annual change in the Cost of Living Index, measured by the Department of Labor Consumer Price Index. The lease expires on June 30, 2015.

The site property lease agreement with Unisite, Inc. permitted Unisite, Inc. to rent partial roof space of the Building to install its antenna. The agreement had a five year lease term and renewed automatically for four consecutive renewal terms of five years each, unless either party notified the other party of its intention not to renew this agreement. The annual lease payment was $21,954 and increased by 4% at the end of each calendar year during the Term or any Renewal Term. Due to the renovation activities of the Building, the agreement which expires on June 30, 2015, was terminated in December 2013. Rental income from antenna fees on the Building ended in December 2013.

The cost of the property leased to the U.S. Government is $ 3,494,066, the carrying value is $ 3,277,246, and the accumulated depreciation amount is $ 216,820 as of June 30, 2014.

Minimum future rentals of the operating lease are comprised of the following:

	Rental Income	
Year Ending June 30	**U.S.Government**	**Total**
2015	$ 1,471,778	$ 1,471,778
Total	$ 1,471,778	$ 1,471,778

6. Commitment and Contingencies

BAHA has entered into contracts with multiple external parties to perform the design, seismic retrofitting, renovation and working space of BAHA's building at 375 Beale Street, San Francisco (the "Building"). The renovation is in process and is expected to be completed by the end of 2015. As of June 30, 2014, the remaining balance of the contracts is approximately $74,000,000.

In 2012, BAHA entered into an office lease agreement with the Bay Area Air Quality Management District (BAAQMD) to occupy space in the Building. The lease agreement grants BAAQMD the option to purchase office space (in the form of a condominium interest) in the Building (the "Purchase Option").

On November 7, 2013, BAAQMD issued a Certificate of Participation (COP) in the amount of $30 million to secure an ownership interest in the Building. BAHA purchased the COP and entered into a site and facilities lease and sublease agreement with BAAQMD on the premises. The effective date of these leases will commence from the date BAAQMD exercises its Purchase Option for the premises which is expected to be in December 2015, when the office space is expected to be ready for occupancy. The proceeds of the COP are being held by a trustee in escrow on behalf of BAAQMD, and are expected to be released to BAHA at the time the Purchase Option is exercised. At the same time the Purchase Option is exercised, BAAQMD will deposit $8.5 million to the trustee to be used to pay BAHA as a prepayment of the COP. Rental payments under the site and facilities lease and sublease have been assigned to a trustee who will use these funds to pay principal and interest to BAHA under the COP.

In 2013, BAHA and the Association of Bay Area Governments (ABAG) signed a Memorandum of Understanding, under which ABAG intends to enter into a purchase and sale agreement with BAHA to purchase a condominium interest in the Building from BAHA. ABAG's purchase price for the condominium interest shall be the transfer to BAHA of ABAG's condominium ownership interest in its current headquarters, the Metro Center, located at 101 Eighth Street, Oakland, CA 94607. In addition, ABAG agreed to provide $4.2 million to BAHA for capital tenant improvements to the Building which will be paid in installments over the period from fiscal year 2014 to 2021. The first payment installment of $400,000 for the capital tenant improvements was due in fiscal year 2014. ABAG's budget funding for the capital tenant improvements is provided by MTC.