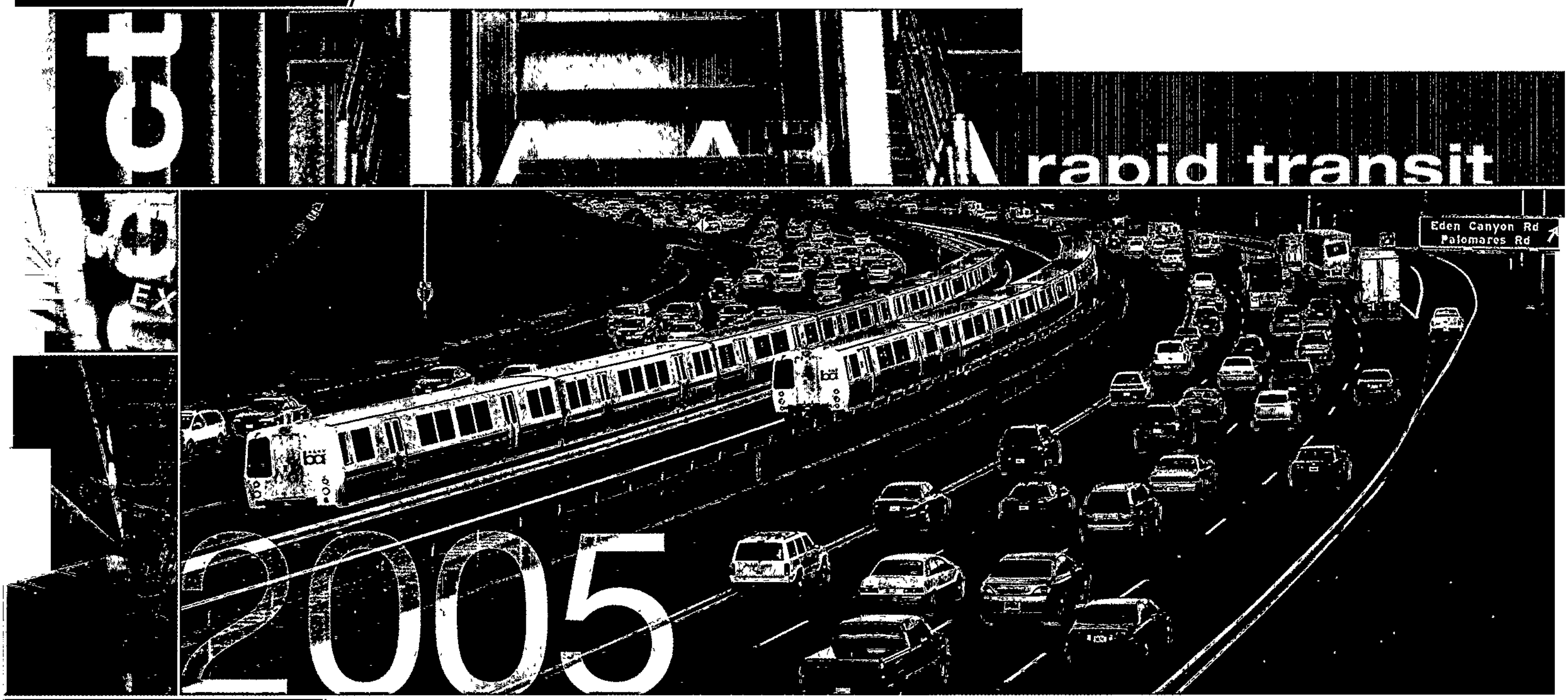
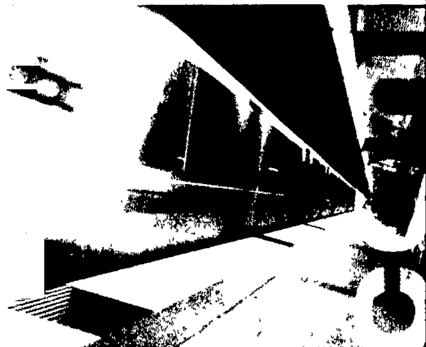
San Francisco Bay Area Rapid Transit District

2005 Annual Report



BART



San Francisco
Bay Area
Rapid Transit
District

2005
Annual Report

Contents

1 Message from the General Manager
4 Report of Independent Auditors
5 Management's Discussion and Analysis (unaudited)

FINANCIAL STATEMENTS

Proprietary Fund – Enterprise Fund:

12 Statements of Net Assets
13 Statements of Revenues, Expenses and Changes in Net Assets
14 Statements of Cash Flows

Fiduciary Fund – Retiree Health Benefit Trust:

16 Statement of Trust Net Assets
16 Statement of Changes in Trust Net Assets

NOTES TO FINANCIAL STATEMENTS

17 Reporting Entity and Summary of Significant Accounting Policies
21 Cash, Cash Equivalents and Investments
26 Receivables and Other Assets
26 Capital Lease Receivable and Liability
27 Capital Assets
29 Accounts Payable and Other Liabilities
29 Long-Term Debt
37 Risk Management
38 Federal Financial Assistance
38 State and Local Financial Assistance
39 Employees' Retirement Benefits
40 Money Purchase Pension Plan
41 Other Postemployment Benefits
42 Board of Directors' Expenses
42 Transit Financing Authority
43 Related Organizations and Projects
44 Commitments and Contingencies
45 Subsequent Event

46 Sources and Uses of Funds
47 Performance Highlights
47 Average Weekday Trips and On-Time Performance
48 BART Governance

2005

Message from the General Manager
Thomas E. Margro

2005 marks the midpoint of the decade and in many respects, for BART, it is analogous to the midpoint in a sharp curve of track. In 2005 BART saw a steady increase in ridership, new contracts with its labor unions, cost cutting without reductions in service and the beginning of an important earthquake strengthening project. As with any curve, we can only anticipate what lies ahead. The information contained in this annual report will help us forecast our future challenges and maintain BART's standing as an industry leader.

From top: ridership increases; BART Police K9 unit on duty; Capitol Corridor Intercity Rail

Labor Contracts

BART's most precious resource is its talented, dedicated and resourceful workforce. In 2005 the District succeeded in reaching new contract agreements to keep workers compensated fairly while preparing for future challenges without affecting service to riders. This last component is key. What is good for riders is good for BART. The new labor agreements skillfully balanced the bottom line of the budget without the need for an additional fare increase or service cuts. Maintaining strong ridership and the good will of the public is essential to BART's financial health.

Ridership Increases

BART's consistent emphasis on providing safe, reliable transportation is paying off at the fare gates. Ridership is steadily increasing as the Bay Area begins a modest economic recovery and the combination of unpredictable gasoline prices and even more unpredictable traffic gridlock prompts commuters to search for cost-effective, dependable transportation. Perhaps at no time since the 1989 Loma Prieta earthquake has BART been so vital to the Bay Area in terms of both the economy and the quality of life.

Earthquake Safety

BART is already planning for the next major earthquake. The Earthquake Safety Program is designed to upgrade the original BART system operating facilities to ensure they can return to operation shortly after a major earthquake. This $1.3 billion program is now in its final design phase.

System Security

BART is not only working to secure the system against acts of Nature but against human-made threats as well. The March 2004 attacks on the Madrid, Spain train system reemphasized the importance of this effort but finding the funds to pay for increased security remains a daunting challenge. BART has identified at least $250 million in unfunded security needs and is working hard to gain at least a fraction of the money.

Meantime, work to make the system more secure continues in a variety of ways, including:

▷ A new public awareness campaign to remind passengers they are a critical component in the overall security network;

▷ The Transportation Security Administration will provide three more highly trained dogs for the BART Police Department's acclaimed K9 unit;

▷ And BART's continual assessment and revision of its Emergency Plan.

Other steps are less visible by their very nature.

It will take leadership and ingenuity to negotiate t
but with 2005 in the rearvie

Revenue Enhancement

The push to obtain funds for security is hardly BART's only monetary concern. Even with increased ridership, the struggle to balance the bottom line for operations takes creativity. BART is looking for ways to enhance revenues on a variety of fronts.

The implementation of daily parking fees at the 10 busiest East Bay stations began in late 2005. In 2005 the daily parking fees resulted in no significant impact on ridership.

BART is also working to develop a marketing partnership to issue "rewards" credit cards and even advertising in tunnels that, to the rider, appear to be "mini-movies."

System Expansion

BART is forging ahead on several capital projects that would eventually expand the 43 station, 104 mile system. Here's a quick overview:

▶ The West Dublin/Pleasanton Station is an infill station as part of a mixed-use development along the Dublin/Pleasanton line. It is projected to open in FY 09.

▶ The Oakland Airport Connector would link the Coliseum/Oakland Airport Station to Oakland International Airport. BART is now soliciting interest in the project as a Public Private Partnership.

▶ The eBART extension into Eastern Contra Costa County would add service 23 miles beyond the Pittsburg/Bay Point Station toward Brentwood. Lightweight diesel multiple-unit trains as well as Bus Rapid Transit and conventional BART are being evaluated as transportation modes.

▶ The Warm Springs Extension would add 5.4 miles of new tracks south of Fremont Station to a new station in the Warm Spring District of the City of Fremont. In 2005 BART released the draft Environment Impact Statement.

▶ Renewed public interest in a BART extension to serve Livermore along the 580 Corridor has prompted several BART Directors to begin a dialogue with stakeholders.

Capitol Corridor

In 2005 BART was once again selected to manage Capitol Corridor, which provides service between San Jose and Sacramento. The Capitol Corridor continues to flourish, with increasing ridership and the new Oakland Coliseum Intercity Rail Platform among its 2005 accomplishments.

BART as a Trend Setter

As if all this weren't enough, BART finished its one-year reign as the American Public Transportation Association's "#1 Transit System in America" by maintaining its trend-setting status in the industry.

▶ BART organized fund-raising efforts to aid the victims of the Asian Tsunami and Hurricane Katrina, establishing itself as an important partner in the larger community.

▶ In early 2005, a BART-sponsored team of students became the first Oakland school group to win the Northern California Regional Future City engineering competition, earning a trip to Washington, D.C.

BART no. 1 Transit System in America

·ves ahead in the year 2006,
·ror, BART has already proven it's headed in the right direction.

MACIAS GINI & COMPANY LLP

Mt. Diablo Plaza
2175 N. California Boulevard, Ste. 645
Walnut Creek, California 94596

925.274.0190 PHONE
925.274.3819 FAX

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

We have audited the accompanying financial statements of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the San Francisco Bay Area Rapid Transit District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the District as of June 30, 2004, were audited by other auditors whose report dated December 8, 2004, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the District, as of June 30, 2005 and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures — an amendment of GASB Statement No. 3.*

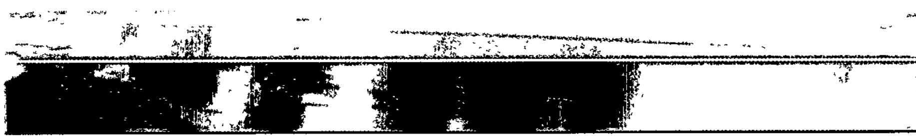
In accordance with *Government Auditing Standards,* we have also issued our report dated November 23, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the District's internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the District's 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.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Macias, Gini & Company LLP

Certified Public Accountants
Walnut Creek, California

November 23, 2005



Management's Discussion and Analysis (unaudited)

Introduction

The following discussion and analysis of the financial performance and activity of the San Francisco Bay Area Rapid Transit District (the "District") provide an introduction and understanding of the basic financial statements of the District for the years ended June 30, 2005 and 2004. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The District is an independent agency created in 1957 by the legislature of the State of California for the purpose of providing an adequate, modern, interurban mass rapid transit system in the various portions of the metropolitan area surrounding the San Francisco Bay. The District started its revenue operations in September 1972. It presently owns a 104-mile, 43-station system serving the four counties of Alameda, Contra Costa, San Francisco and San Mateo. The government of the District is vested in a Board of Directors composed of nine members, each representing an election district within the District.

The Financial Statements

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

Overview of the Enterprise Fund Financial Statements

The *Statement of Net Assets* reports assets, liabilities and the difference as *net assets.* The entire equity section is combined to report total *net assets* and is displayed in three components — *invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.*

The net asset component *invested in capital assets, net of related debt,* consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings attributable to the acquisition, construction or improvements of those assets.

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

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

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

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

Financial Highlights

Statements of Revenues, Expenses and Changes in Net Assets

A summary of the District's Statements of Revenues, Expenses and Changes in Net Assets for fiscal years 2005, 2004 and 2003 is as follows:

(dollar amounts in thousands)	2005	2004	2003
Operating revenues	$ 248,644	$ 234,546	$ 205,104
Operating expenses, net	(548,197)	(498,503)	(442,936)
Operating loss	(299,553)	(263,957)	(237,832)
Nonoperating revenues, net	189,059	162,178	185,617
Capital contributions	77,947	75,010	130,193
Special item	(36,222)	–	–
Change in net assets	(68,769)	(26,769)	77,978
Net assets, beginning of year	4,397,733	4,424,502	4,346,524
Net assets, end of year	$4,328,964	$4,397,733	$4,424,502

Operating Revenues

In fiscal year 2005, the operating revenues increased by $14,098,000. The increase can be attributed to (1) an increase of 4,148 (1.4%) on the average weekday ridership from 306,569 in 2004 to 310,717 in 2005, and (2) the full year effect on fiscal year 2005 of the 10% fare increase on January 1, 2004, as compared to six months only (January 2004 to June 2004) in fiscal year 2004.

The increase of $29,442,000 in operating revenues in fiscal year 2004 is mainly credited to: (1) an increase of 11,411 (4%) in the average weekday ridership from 295,158 in fiscal year 2003 to 306,569 in fiscal year 2004, which is all attributed to the first full year of revenue operations of the San Francisco International Airport Extension (SFO Extension); and (2) the cumulative effect of the two consecutive years of fare increases of 5% on January 1, 2003 and 10% on January 1, 2004.

Operating Expenses

Net operating expenses increased by $49,694,000 in fiscal year 2005 which was mainly due to (1) an increase in depreciation expense, a non-cash item, of $12,129,000; (2) an increase of $24,550,000 in pension contributions to CalPERS due to the resumption in fiscal year 2005 of the employer contributions for the Miscellaneous Plan and the increase in the required employer contribution rate for the Safety Plan from 2.897% to 28.910%; (3) in fiscal year 2005 the additional 3.5% money purchase pension plan contributions to employees was discontinued which resulted in an expense reduction of $7,120,000; (4) an increase in the expense accrual for workers' compensation self-insurance reserve of $4,057,000; (5) increase in the employees salaries and benefits totaling an estimated amount of $19,000,000 because of the 6% contractual salary increase in fiscal year 2005, accrual of arbitration settlements and severance payments due to position reductions.

Net operating expenses increased by $55,567,000 in fiscal year 2004, which is mostly due to (1) an increase of $12,899,000 in depreciation expense, a non-cash item; (2) an increase of $22,479,000 in salaries and benefits which include the 5% contractual salary increase in 2004, a 45% increase in overtime hours, and a 19% increase in medical health insurance premiums; (3) a net decrease of $4,788,000 in labor reimbursements from capital projects; and (4) an increase of $13,000,000 in non-labor costs which include an increase of $4,163,000 in rent expense because of the first full year of rent charged to operations for the station facilities at the San Francisco International Airport and the accrual of rent at the District's new administrative office location and an $8,883,000 increase in traction power, materials usage and other non-labor expenses.

Nonoperating Revenues

Net nonoperating revenues for fiscal year 2005 increased by $26,881,000. The increase is accounted for as follows:

(1) increase of $7,826,000 in sales tax revenues;

(2) an increase of $13,475,000 in investment income which is mainly due to (a) an increase of $12,234,000 in interest income recognized from the deposits for sublease obligation related to the lease/leaseback of rail traffic control equipment in 2002 and (b) an increase in the average investment earnings rate from 1.70% in 2004 to 2.26% in 2005;

(3) a decrease in interest expense of $6,902,000 mainly due to the prepayment of a portion of the FTA Capital Grant Bonds, 2001 Series A, with principal amounts totaling $88,995,000 due in fiscal years 2008 and 2009; and

(4) the financial assistance received from San Mateo County Transit District (SamTrans) for the net operating expenses of the San Francisco International Airport Extension decreased by $3,137,000 due to the increase in fare revenues from increased ridership and from cost reduction due to reduced train service and shorter trains.

The decrease of $23,439,000 in nonoperating revenues in fiscal year 2004 is mainly due to the net effect of increases and decreases in the following accounts:

(1) An increase of $17,456,000 in local financial assistance which relates to the subsidy received from SamTrans to cover the operating deficit of the SFO Extension. The fiscal year 2004 subsidy covered the whole year of operations while the fiscal year 2003 subsidy covered less than half a month of operations, the SFO Extension having started its revenue operations only on June 22, 2003.

(2) A decrease in investment income of $13,336,000 which is mainly due to the decrease in earned investment income related to certain portions of the proceeds from the lease/leaseback of some rail traffic equipment in 2002 which were earmarked for purchase option deposit and the prepayment of the sublease rent obligations.

(3) Interest expenses increased by $31,665,000. The actual interest expenses incurred for fiscal year 2004 amounted to $74,475,000 and $77,379,000 for fiscal year 2003, or an actual decrease in interest expenses paid/incurred of $2,904,000. However, for accounting purposes, a portion of the interest expense on tax-free borrowings incurred during the construction of a project has to be capitalized as an additional cost of the project. The capitalization has the effect of reducing the interest expense for financial reporting purposes. In fiscal year 2003, the capitalized interest amounted to $36,877,000 as compared to only $2,308,000 in fiscal year 2004 or a difference of $34,569,000, which is due to the completion, in late fiscal year 2003, of the District's two major capital projects, which are the SFO Extension and the A&B Car Rehabilitation.

Capital Contributions

The revenues from capital contributions relate to grants and other financial assistance received by the District from the federal, state and local agencies to fund capital projects. The District receives reimbursement-type grants where the District has to first incur eligible costs under the provider's program before qualifying for the grant resources. Revenues from capital contributions are recognized at the time when the eligible project costs are incurred. The capital contributions in fiscal year 2005 showed only a small increase of $2,937,000 over fiscal year 2004. For the most part of fiscal year 2003, the District's two major capital projects, the SFO Extension and the A&B Car Rehabilitation, were still under construction. The completion of these two major capital projects in late fiscal year 2003 account for most of the decrease of $55,183,000 in the revenues from capital contributions in fiscal year 2004.

Statements of Net Assets

A comparison of the District's Statements of Net Assets as of June 30, 2005, 2004 and 2003 is as follows:

(dollar amounts in thousands)	2005	2004	2003
Current assets	$ 525,254	$ 425,715	$ 438,877
Noncurrent assets — capital assets, net	4,997,869	5,009,777	4,999,477
Noncurrent assets — other	486,394	703,622	767,280
Total assets	6,009,517	6,139,114	6,205,634
Current liabilities	370,415	300,865	299,560
Noncurrent liabilities	1,310,138	1,440,516	1,481,572
Total liabilities	1,680,553	1,741,381	1,781,132
Net assets			
Invested in capital assets, net of debt	4,037,420	3,884,807	3,869,281
Restricted net assets	180,290	357,343	371,215
Unrestricted net assets	111,254	155,583	184,006
Total net assets	$4,328,964	$4,397,733	$4,424,502

The noncurrent assets — other decreased by $217,228,000 in 2005 and by $63,658,000 in 2004. The decrease is mainly attributed to (1) decrease in unrestricted investments of $35,952,000 in 2005 and $15,724,000 in 2004 due to the use of District funds for operating and capital expenditures; (2) decrease in restricted cash, cash equivalents and investments amounting to $23,472,000 in 2005 and $52,024,000 in 2004 due to the use of debt service reserve funds for the payment of long-term debt and the expenditure of bond proceeds for capital projects; and (3) decrease of $162,065,000 in 2005 in the receivable from the SFO Federal Full Funding Agreement because of the receipt of the funding allocations for both fiscal years 2004 and 2005.

The current liabilities on June 30, 2005 increased by $69,550,000 to $370,415,000 from a balance of $300,865,000 on June 30, 2004. The increase is due to (1) increase in the current portion of long-term debt totaling $79,151,000 mainly from the 1998 Bonds, the construction loans and the lease/leaseback obligation; and (2) decrease of $10,100,000 in accounts payable and other liabilities due to the timing of payments to vendors and contractors.

The current liabilities from fiscal year 2003 ($299,560,000) to fiscal year 2004 ($300,865,000) showed a slight increase of only $1,305,000.

Capital Assets

The District's capital assets, before accumulated depreciation, increased by $110,693,000 in 2005 and by $112,252,000 in 2004. The major additions during the years included capital expenditures for the acquisition and/or major improvements on the following assets:

- core system and extensions amounting to $70,797,000 in 2005 and $81,374,000 in 2004;
- train control equipment totaling $25,038,000 in 2005 and $6,363,000 in 2004;
- revenue transit vehicles in the amount of $9,494,000 in 2005 and $13,360,000 in 2004;
- automatic fare collection equipment amounting to $11,488,000 in 2005 and $24,503,000 in 2004; and
- Business Advancement Plan (BAP) which is a project to replace the information technology systems supporting the District's administrative business totaling $10,458,000 in 2005.

Details of the capital assets, net of accumulated depreciation, as of June 30, 2005, 2004 and 2003 are as follows:

(dollar amounts in thousands)	2005	2004	2003
Land	$ 513,849	$ 481,466	$ 476,202
Stations, track, structures and improvements	2,738,045	2,555,907	2,518,050
Buildings	18,072	22,409	22,058
Revenue transit vehicles	586,042	628,460	669,801
Other	280,052	288,625	301,445
Construction in progress	861,809	1,032,910	1,011,921
Total capital assets	$4,997,869	$5,009,777	$4,999,477

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $492,974,000 at June 30, 2005 and $548,306,000 at June 30, 2004.

Long-Term Debt

The outstanding balance of long-term debt showed decreases of $61,054,000 and $40,687,000 at the end of fiscal years 2005 and 2004, respectively. Below is a summary of long-term debt as of June 30, 2005, 2004 and 2003 (including current portion but excluding unamortized balance of debt issue costs and bond premium/discounts):

(dollar amounts in thousands)	2005	2004	2003
Bonds payable from and collateralized by a pledge of sales tax revenues	$ 714,820	$ 732,365	$ 748,802
Bonds payable from and collateralized by the Federal Full Funding Grant Agreement for the SFO Extension	197,250	347,540	368,035
Notes payable from bridge toll revenues	30,280	38,355	46,035
Construction loans payable from the net operating surplus of the SFO Extension	88,500	88,500	88,500
Construction loan for temporary cash flow requirements of the SFO Extension	35,400	27,325	19,645
Lease/leaseback obligation, including option price, for rail traffic control equipment	197,433	190,652	194,407
Bonds payable from the premium fare imposed on the passengers who board on or depart from the San Francisco International Airport Station	56,715	56,715	56,715
General obligation bonds	100,000	–	–
Total long-term debt	$1,420,398	$1,481,452	$1,522,139

In fiscal year 2005 the principal payments of the bonds payable from the Federal Full Funding Grant Agreement for the SFO Extension include prepayments of bonds due in fiscal year 2008 amounting to $1,040,000 ($28,000,000 in fiscal year 2004) and $87,955,000 of the bonds due in fiscal year 2009.

Addition to Long-Term Debt in Fiscal Year 2005

On May 13, 2005, the District issued the General Obligation Bonds (Election of 2004), 2005 Series A (2005 GO Bonds) with an aggregate principal amount of $100,000,000. The 2005 GO Bonds constitute a portion of the total authorized amount of $980,000,000 of general obligation bonds of the District duly authorized by at least two-thirds of the qualified voters of the District voting on a ballot measure ("Measure AA") at an election held on November 2, 2004. The 2005 GO Bonds were issued to finance earthquake safety improvements to BART facilities and structures. The 2005 GO Bonds are general obligations of the District, payable from and secured solely by property taxes levied by the District, as authorized by Measure AA, upon all property subject to taxation within the three BART Counties of Alameda, Contra Costa and San Francisco. Three national rating agencies have assigned their municipal bond ratings of AAA, Aa1 and AA+ to the 2005 GO Bonds.

Addition to Long-Term Debt in Fiscal Year 2004

On June 14, 2004, the Association of Bay Area Governments ("ABAG") issued BART SFO Extension Refunding Bonds, 2004 Series A (Auction Rate Securities) (the "Series 2004 Bonds") with an aggregate principal amount of $66,000,000, for the benefit of the District. The issuance of the Series 2004 Bonds had the effect of freeing up $14,600,000 from the debt service reserve fund of the BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A, and making the amount available as an additional source of cash for the payment of the SFO Extension Project expenditures. The Series 2004 Bonds are payable solely from amounts received by the District pursuant to a Full Funding Grant Agreement with the United States of America, acting through the Department of Transportation, Federal Transit Administration and revenues, if any, under an interest rate cap agreement executed by the District in connection with the Series 2004 Bonds. The bonds were given ratings of Aaa and AAA by two national rating agencies.

Statements of Cash Flows/Cash, Cash Equivalents and Investments

A comparative presentation of the major sources and uses of cash for 2005, 2004 and 2003 is as follows:

(dollar amounts in thousands)	2005	2004	2003
Net cash used in operating activities	$ (165,472)	$ (148,899)	$ (132,666)
Net cash provided by noncapital financing activities	113,868	152,417	130,470
Net cash provided by (used in) capital and related financing activities	64,898	(65,687)	(132,045)
Net cash provided by (used in) investing activities	107,877	10,157	(15,009)
Net change in cash and cash equivalents	121,171	(52,012)	(149,250)
Cash and cash equivalents, beginning of year	230,751	282,763	432,013
Cash and cash equivalents, end of year	351,922	230,751	282,763
Investments, end of year	266,664	356,440	360,475
Cash, cash equivalents and investments, end of year	$ 618,586	$ 587,191	$ 643,238

In fiscal year 2005, cash, cash equivalents and investments increased by $31,395,000 to a total amount of $618,586,000 as of June 30, 2005 as compared to $587,191,000 on June 30, 2004. The increase can be mainly attributed to (1) $100,000,000 from the proceeds of the 2005 General Obligation Bonds received on May 26, 2005; (2) $36,222,000 cash transferred to the Retiree Health Benefit Trust; (3) increase of $55,045,000 in principal and interest payments on long-term debt, particularly because of the prepayment of a portion of the FTA Capital Grant Bonds; and (4) increase of $26,716,000 in investment income, fiber optics revenue and other operating revenues.

The total cash, cash equivalents and investments held by the District and trustee banks at the end of fiscal year 2004 amounted to $587,191,000 which is a decrease of $56,047,000 compared to the balance of $643,238,000 on June 30, 2003. The decrease in cash and investments is mainly attributed to (1) capital expenditures during the year amounting to $128,403,000 reduced by reimbursements received from federal, state and other local grants of $103,385,000 or a net disbursement for capital projects of $25,018,000, (2) the advance payment in fiscal year 2004, amounting to $28,000,000, of a portion of the FTA Capital Grant Bond due in fiscal year 2008.

Contacting the District's Financial Management

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

ENTERPRISE FUND — Statements of Net Assets

June 30, 2005 and 2004

(dollar amounts in thousands)	2005	2004
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 162,404	$ 135,744
Investments	61,048	80,717
Capital grants receivable	29,712	28,320
Receivables and other assets	30,517	24,938
Current portion of capital lease receivable	3,154	3,154
Materials and supplies	27,441	25,692
Total unrestricted current assets	314,276	298,565
Restricted assets		
Cash and cash equivalents	189,518	95,007
Investments	21,460	32,143
Total restricted current assets	210,978	127,150
Total current assets	525,254	425,715
Noncurrent assets		
Capital assets		
Nondepreciable	1,375,658	1,514,376
Depreciable, net of accumulated depreciation	3,622,211	3,495,401
Unrestricted assets		
Investments	17,793	53,745
Long-term portion of capital lease receivable	14,195	17,350
Receivables and other assets	1,113	1,704
Restricted assets		
Investments	166,363	189,835
Capital grants receivable	115,438	277,503
Receivables and other assets	25,439	17,432
Deposits for sublease obligation	146,053	146,053
Total noncurrent assets	5,484,263	5,713,399
Total assets	6,009,517	6,139,114
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and other liabilities	175,417	185,517
Current portion of long-term debt, net	172,782	93,631
Self-insurance liabilities	9,340	10,155
Deferred revenue	9,722	8,408
Current portion of capital lease liability	3,154	3,154
Total current liabilities	370,415	300,865
Noncurrent liabilities		
Long-term debt, net of current portion	1,233,287	1,372,429
Self-insurance liabilities	19,300	16,852
Deferred revenue	40,622	31,261
Capital lease liability, net of current portion	14,195	17,350
Other liabilities	2,734	2,624
Total noncurrent liabilities	1,310,138	1,440,516
Total liabilities	1,680,553	1,741,381
Net assets		
Invested in capital assets, net of related debt	4,037,420	3,884,807
Restricted net assets		
For debt service and other liabilities	180,290	333,745
For retiree health benefits	–	23,598
Unrestricted net assets	111,254	155,583
Total net assets	$4,328,964	$4,397,733

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

ENTERPRISE FUND — Statements of Revenues, Expenses and Changes in Fund Net Assets

For the years ended June 30, 2005 and 2004

(dollar amounts in thousands)	2005	2004
Operating revenues		
Fares	$ 233,651	$ 220,391
Other	14,993	14,155
Total operating revenues	248,644	234,546
Operating expenses		
Transportation	127,391	121,257
Maintenance	163,051	145,683
Police services	37,510	31,080
Construction and engineering	16,030	15,824
General and administrative	109,130	102,849
Depreciation	128,697	116,568
Total operating expenses	581,809	533,261
Less — capitalized costs	(33,612)	(34,758)
Net operating expenses	548,197	498,503
Operating loss	(299,553)	(263,957)
Nonoperating revenues (expenses)		
Transactions and use tax (sales tax)	178,392	170,566
Property tax	22,412	21,372
State and local financial assistance	16,680	19,875
Investment income	36,415	22,940
Interest expense	(65,265)	(72,167)
Other income (expense), net	425	(408)
Total nonoperating revenues, net	189,059	162,178
Change in net assets before capital contributions and special item	(110,494)	(101,779)
Capital contributions	77,947	75,010
Special item: contributions to retiree health benefit trust	(36,222)	–
Change in net assets	(68,769)	(26,769)
Net assets, beginning of year	4,397,733	4,424,502
Net assets, end of year	$ 4,328,964	$ 4,397,733

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

ENTERPRISE FUND — Statements of Cash Flows

For the years ended June 30, 2005 and 2004

(dollar amounts in thousands)	2005	2004
Cash flows from operating activities		
Receipts from customers	$234,559	$220,258
Payments to suppliers	(125,609)	(108,404)
Payments to employees	(301,485)	(273,854)
Other operating cash receipts	27,063	13,101
Net cash used in operating activities	(165,472)	(148,899)
Cash flows from noncapital financing activities		
Transactions and use tax (sales tax) received	118,879	111,200
Property tax received	22,280	22,150
Financial assistance received	8,931	19,067
Contributions to the Retiree Health Benefit Trust	(36,222)	–
Net cash provided by noncapital financing activities	113,868	152,417
Cash flows from capital and related financing activities		
Transactions and use tax (sales tax) received	59,513	59,366
Capital grants received	237,225	103,385
Proceeds from issuance of 2005 General Obligation Bonds	100,000	–
Proceeds from issuance of 2004 SFO Extension Refunding Bonds	–	66,000
Proceeds from construction loans and advances	10,000	10,000
Expenditures for capital assets	(112,981)	(128,403)
Principal paid on long-term debt	(175,910)	(114,328)
Payments of long-term debt issuance and service costs	(2,161)	(2,248)
Premium received from issuance of long-term debt	2,717	–
Interest paid on long-term debt	(53,611)	(60,148)
Principal payments received from installment receivable	106	689
Net cash provided by (used in) capital and related financing activities	64,898	(65,687)
Cash flows from investing activities		
Proceeds from sale and maturity of investments	306,405	234,870
Purchase of investments	(217,403)	(230,834)
Investment income	18,875	6,121
Net cash provided by investing activities	107,877	10,157
Net change in cash and cash equivalents	121,171	(52,012)
Cash and cash equivalents, beginning of year	230,751	282,763
Cash and cash equivalents, end of year	$351,922	$230,751
Reconciliation of cash and cash equivalents to the Statements of Net Assets		
Current, unrestricted assets — cash and cash equivalents	$162,404	$135,744
Current, restricted assets — cash and cash equivalents	189,518	95,007
Total cash and cash equivalents	$351,922	$230,751

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

ENTERPRISE FUND — **Statements of Cash Flows** (continued)

For the years ended June 30, 2005 and 2004

(dollar amounts in thousands)	2005	2004
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$(299,553)	$(263,957)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	128,697	116,568
Amortization of deferred charges	83	126
Net effect of changes in		
(Increase) decrease in receivables and other assets	1,414	(7,867)
(Increase) in materials and supplies	(1,749)	(178)
Increase (decrease) in accounts payable and other liabilities	(8,211)	8,703
Increase (decrease) in self-insurance liabilities	1,633	(2,018)
Increase (decrease) in deferred revenue	12,214	(276)
Net cash used in operating activities	$(165,472)	$(148,899)
Noncash transactions		
Capital assets acquired with a liability at year-end	$ 39,437	$ 40,020
Lease/leaseback obligation additions	10,837	10,847
Lease/leaseback obligation amortization	6,716	14,114
Increase in fair value of investments	8,582	2,077
Amortization of long-term debt premium, discount and issue costs	548	232
Amortization of deferred interest on early debt retirement	478	478
Amortization of deferred gain on lease/leaseback transaction	1,482	1,482

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

RETIREE HEALTH BENEFIT TRUST— Statement of Trust Net Assets

June 30, 2005

(dollar amounts in thousands)	
Assets	
Interest receivable and other assets	$ 187
Pending trades receivable	5,764
Investments	
Domestic common stocks	20,605
U.S. Treasury obligations	9,361
Money market mutual funds	5,770
Corporate obligations	3,649
Foreign obligations	205
Total investments	39,590
Total assets	45,541
Liabilities	
Accounts payable	19
Pending trades payable	8,317
Total liabilities	8,336
Net assets held in trust for retiree health benefits	$37,205

RETIREE HEALTH BENEFIT TRUST— Statement of Changes in Trust Net Assets

For the year ended June 30, 2005

(dollar amounts in thousands)	
Additions	
Employer contributions	$36,222
Investment income	
Interest income	593
Net appreciation in fair value of investments	488
Investment expense	(54)
Net investment income	1,027
Total additions	37,249
Deductions	
Legal fees	44
Increase in trust net assets	37,205
Net assets held in trust for retiree health benefits:	
Beginning of year	–
End of year	$37,205

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

Notes to Financial Statements

June 30, 2005 and 2004

1. Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

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

The District has defined its financial reporting entity in accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity,* 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, and the fact that the Transit Financing Authority (the "Authority") provides services almost entirely to the District (the "primary government"), the Authority's financial information is presented as a blended component unit of the District's financial statements (See Note 15).

Basis of Accounting and Presentation

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

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

The District applies all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions and Accounting Research Bulletins ("ARBs") of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* not to apply FASB Statements and Interpretations issued after November 30, 1989, due to the nature of the District's operations.

Retiree Health Benefit Trust Fund (a fiduciary fund) — The Retiree Health Benefit Trust Fund is used to account for assets held by the District as a trustee to pay retiree health care premiums. The assets of the Trust cannot be used to support the District's programs.

Cash Equivalents

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

Investments

The District records investment transactions on the trade date. Investments in nonparticipating interest-earning investment contracts (certificates of deposits and guaranteed investment contracts) are reported at cost and all other investments are at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Fair value is defined as the amount that the District could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller and is generally measured by quoted market prices. As a matter of policy, the District usually holds investments until their maturity.

Restricted Assets

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

Capital Grants

The District receives grants from the Federal Transit Administration ("FTA") and other agencies of the U.S. Department of Transportation, the State of California, and local transportation funds for the acquisition of transit-related equipment and improvements. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* capital grants are required to be included in the determination of changes in net assets resulting in an increase in net revenue of $77,947,000 and $75,010,000 for the fiscal years 2005 and 2004, respectively. Capital grants receivable represent amounts expected from governmental agencies to reimburse the District for costs incurred for capital projects (see Notes 9 and 10).

Materials and Supplies

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

Bond Issuance Costs, Discounts, Premiums and Deferred Amounts on Refundings

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

Capital Assets

Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 80 years. The District's policy is to capitalize acquisitions of capital assets with a cost greater than $5,000 and a useful life of more than one year, and all costs related to capital projects, regardless of amounts.

Major improvements and betterments to existing facilities and equipment are capitalized. Costs for maintenance and repairs that do not extend the useful life of the applicable assets are charged to expense as incurred. 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 until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax-free borrowings. Net interest expense in the amount of $1,789,000 and $2,308,000 was capitalized during the years ended June 30, 2005 and 2004, respectively.

Deferred Revenues

Deferred revenues consists principally of the cash gain received by the District from the lease/leaseback of certain rail traffic control equipment in 2002 (see Note 7) and from the sale/leaseback of 25 C-2 rail cars in 1995 (see Note 4). Additionally, deferred revenues include prepayments of revenues related to license fees paid by telecommunication companies for the use of the District's right of way for wireless accessibility to their customers and estimated passenger tickets sold but unused.

Compensated Absences

Compensated absences are reported and accrued as a liability in the period incurred. The entire balance of compensated absences in the amounts of $48,405,000 and $48,398,000 as of June 30, 2005 and 2004, respectively, is considered short-term and presented as part of accounts payable and other liabilities in the statements of net assets.

Net Assets

Net assets invested in capital assets, net of related debt include capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net assets are restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation and include amounts restricted for debt service, other liabilities and retiree health benefits (2004 only). All other net assets are unrestricted. Generally, the District's policy is to spend restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Transactions and Use Tax (Sales Tax) Revenues

The State of California legislation authorizes the District to impose a 0.5% transaction and use tax within District boundaries, which is collected and administered by the State Board of Equalization. Of amounts available for distribution, 75% is paid directly to the District for the purpose of paying operating expenses, except for the portion that is paid directly to trustees to cover principal and interest payments of maturing sales tax revenue bonds and equity reserves. 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 an allocation of property tax revenues for transit operations. As required by the law of the State of California, the District utilizes the services of each of the three BART Counties of Alameda, Contra Costa and San Francisco for the assessment and collection of taxes for District purposes. District taxes are collected at the same time and on the same tax rolls as county, school district and other special district taxes. Property taxes are recorded as revenue in the fiscal year of levy.

State and Local Financial Assistance

Financial assistance grants for operations are reported as nonoperating revenue in the period to which the grant applies and, for cost reimbursement grants, to the period in which the related expenditures are incurred (see Note 10).

Collective Bargaining

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

- American Federation of State, County and Municipal Employees (AFSCME), Local 3993
- Amalgamated Transit Union (ATU), Local 1555
- Service Employees International Union (SEIU), Local 790
- BART Police Officers Association
- BART Police Managers Association

Special Item

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. The District normally finances its retiree health benefits on the pay-as-you-go basis. However, in anticipation of an upcoming GASB pronouncement that requires these benefits be accounted for on an accrual basis, the District's Board and management decided to make contributions amounting to $36,222,000 to the Retiree Health Benefit Trust, in an effort to advance fund a portion of its retiree health benefits obligation. Additional discussion is provided at Note 13.

Capitalized Costs

The District initially charges employee salaries, wages and benefits to operating expenses by functional expense category. Labor costs included in those amounts that are associated with capital projects are subsequently reclassified to be included in the cost of the related capital asset. This reclassification is reflected in the statement of revenues, expenses and changes in net assets as a reduction of operating expenses. The amounts of $33,612,000 and $34,758,000 were capitalized during the years ended June 30, 2005 and 2004, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

Recent Accounting Pronouncements

The District implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3,* during the year ended June 30, 2005. The implementation of this standard resulted in specific disclosures for credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

In April of 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This Statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This standard will become effective for the District's Retiree Health Benefit Trust on July 1, 2006.

In June of 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers. The District is in the process of analyzing the impact that adopting this statement will have on its financial position and results of operations. This standard becomes effective for the District beginning July 1, 2007.

In June of 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits.* This statement establishes measurement, recognition and disclosure requirements for all termination benefits. The requirements of this statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005.

Reclassifications

Certain prior year balances were reclassified to conform with the current year presentation. The reclassifications have no effect on the financial position or results of operations.

2. Cash, Cash Equivalents and Investments

Cash, Cash Equivalents and Investments of the Enterprise Fund

Cash, cash equivalents and investments are reported in the Enterprise Fund as follows:

	2005			2004		
(dollar amounts in thousands)	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Current assets						
Cash and cash equivalents	$ 162,404	$ 189,518	$ 351,922	$ 135,744	$ 95,007	$ 230,751
Investments	61,048	21,460	82,508	80,717	32,143	112,860
Noncurrent assets						
Investments	17,793	166,363	184,156	53,745	189,835	243,580
Total	$ 241,245	$ 377,341	$ 618,586	$ 270,206	$ 316,985	$ 587,191

Investment Policy

The California Public Utilities Code, Section 29100, and the California Government Code, Section 53601, provide the basis for the District's investment policy. To meet the objectives of the investment policy — (1) preservation of capital, (2) liquidity, and (3) yield — the investment policy, approved by the Board of Directors, specifically identifies the types of permitted investments, as well as any maturity limits and other restrictions. The District's investment policy, which is more restrictive than required by law, allows investments in the following:

- Repurchase agreements,
- Reverse repurchase agreements,
- Collateralized time deposits,
- Mutual funds,
- California Local Agency Investment Fund, and
- Securities of the U.S. Government and its agencies.

The District's investments include amounts invested in the State of California Local Agency Investment Fund (LAIF). The total amount invested by all public agencies in LAIF at June 30, 2005 was $18.6 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA), whose balance at June 30, 2005 was $60.5 billion. Of this amount, 100% was invested in non-derivative instruments. PMIA is not SEC-registered, but is required to invest according to the California Government Code. The average maturity of PMIA investments was 165 days as of June 30, 2005. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the pool. Withdrawals from LAIF are done on a dollar to dollar basis.

Interest Rate Risk

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

		Investment Maturities (in Years)			
(dollar amounts in thousands)	Fair Value	Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds	$232,646	$232,646	$ –	$ –	$ –
U.S. government agencies	207,862	139,323	27,357	402	40,780
Repurchase agreements	100,283	–	67,652	32,631	–
Local Agency Investment Fund	23,758	23,758	–	–	–
U.S. Treasury notes	15,133	–	15,133	–	–
U.S. Treasury bills	2,317	2,317	–	–	–
Total investments	581,999	398,044	110,142	33,033	40,780
Deposits with banks	35,407	35,407	–	–	–
Certificates of deposit	800	–	800	–	–
Imprest funds	380	380	–	–	–
Total cash and investments	$618,586	$433,831	$110,942	$33,033	$40,780

Credit Risk

The District's credit rating risk is governed by Section 53601 of the California Government Code which limits investments in money market mutual funds to those funds with the highest evaluations granted by the rating agencies, which is Aaam. The District has investments in U.S. government agencies, bank repurchase agreements (underlying of U.S. Treasury securities) and in money market mutual funds. There are no investment limits on the securities of U.S. Treasury or certain U.S. government agencies as these investments are backed by the full faith and credit of the United States government. The following is a summary of the credit quality distribution for securities with credit exposure as rated by national rating agencies:

		Credit Ratings			
(dollar amounts in thousands)	Fair Value	AAA	AA	A	Not Rated
Money market mutual funds	$232,646	$232,646	$ –	$ –	$ –
U.S. Government agencies	207,862	26,241	–	140,179	41,442
Repurchase agreements	100,283	67,652	32,631	–	–
Local Agency Investment Fund	23,758	–	–	–	23,758
U.S. Treasury notes	15,133	15,133	–	–	–
U.S. Treasury bills	2,317	2,317	–	–	–
Total investments	581,999	$343,989	$ 32,631	$140,179	$65,200
Deposits with banks	35,407				
Certificates of deposit	800				
Imprest funds	380				
Total cash and investments	$618,586				

Concentration of credit risk

The District's investment policies mitigate exposure to concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5% of the total portfolio. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement as they are normally diversified themselves.

Custodial Credit Risk — Deposits

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

Custodial Credit Risk — Investments

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

Investments of the Retiree Health Benefit Trust (Trust)

Investment Policy

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

- Cash equivalents such as treasury bills, money market trusts, short-term interest fund (STIF) trusts, commercial paper rated A1/P1, banker's acceptances, certificates of deposits and repurchase agreements;
- Fixed income securities which include U.S., agency and corporation bonds (including Yankees) and preferred stock and Rule 144A issues, and mortgage-or-asset-backed securities;
- Equity securities, including U.S. traded common, preferred stocks and convertible stocks and bonds, including American Depository Receipts.

Interest rate risk

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

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

A summary of investments by type of investments and by segmented time distribution is as follows:

(dollar amounts in thousands)	Fair Value	Investment Maturities (in Years) Less Than 1	1 – 5	6 – 10	More Than 10
U.S. Treasury obligations	$ 9,361	$ 347	$ 1,161	$ 1,317	$ 6,536
Money market mutual funds	5,770	5,770	–	–	–
Corporate obligations	3,649	247	1,465	559	1,378
Foreign obligations	205	–	107	69	29
Investments subject to interest rate risk	18,985	$ 6,364	$ 2,733	$ 1,945	$ 7,943
Domestic common stocks	20,605				
Total investments	$ 39,590				

Credit Risk

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

(dollar amounts in thousands)	Fair Value	Credit Ratings AAA	AA	A	BBB	BB	Not Rated
US Treasury obligations	$ 9,361	$ 9,361	$ –	$ –	$ –	$ –	$ –
Money market mutual funds	5,770	–	–	–	–	–	5,770
Corporate obligations	3,649	2,028	218	532	775	96	–
Foreign obligations	205	28	–	42	135	–	–
Investments subject to credit risk	18,985	$11,417	$218	$574	$ 910	$ 96	$ 5,770
Domestic common stocks	20,605						
Total investments	$39,590						

Custodial Credit Risk — Investments

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

Cash and Investment Disclosures as of June 30, 2004

The District implemented the requirements of GASB Statement No. 40 for the year ended June 30, 2005 and, accordingly, has elected to disclose its cash and investments using the new standards as described above. However, the District elected not to retroactively apply those disclosures. Accordingly, the following disclosures related to cash and investments held as of June 30, 2004 do not include the disclosures required under GASB Statement No. 40.

Deposits

The carrying amount of the District's deposits with banks and cash on hand was $67,663,000 at June 30, 2004, with a corresponding bank balance of $65,828,000. The difference between the carrying amount and the bank balance is due to outstanding checks and deposits in transit. Of the bank balance, $1,882,000 was covered by federal depository insurance, and $63,946,000 was collateralized in accordance with Section 53652 of the California Government Code.

Investments

The District's investments are categorized below to give an indication of the custodial credit risk assumed by the District at June 30, 2004. 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 counterparty's trust department or agent in the District's name. The District's investments are reported at fair value, as follows:

	2004		
	Category (at cost)		
(dollar amounts in thousands)	1	2	Fair Value
Money Market	$ 5,000	$ 3,826	$ 8,826
U.S. Tresury securities	55,520	97,011	152,923
Federal agency obligations	130,161	35,915	165,466
Repurchase agreements	40,019	92,995	133,014
Local agency investment fund	20,000	3,688	23,688
Corporate obligations/shares	–	35,611	35,611
Total	$250,700	$269,046	$519,528
Cash on hand			2,535
Time and demand deposits			65,128
Total			$587,191

3. Receivables and Other Assets

The District reports the following aggregated accounts as receivables and other assets in the statements of net assets as of June 30, 2005 and 2004:

(dollar amounts in thousands)	2005	2004
Interest receivable	$25,849	$18,338
Local financial assistance	13,092	2,858
Capitol Corridor Joint Powers Authority	8,262	10,072
Notes receivable	4,236	4,276
Ticket vendors	3,309	3,252
Prepaid expenses	2,408	678
Deferred charges	1,225	1,824
Imprest deposits for self-insurance liabilities	1,009	1,009
Property taxes	734	602
Other	1,945	3,665
Allowance for doubtful accounts	(5,000)	(2,500)
Total receivables and other assets	$57,069	$44,074
Current, unrestricted portion	$30,517	$24,938
Noncurrent, unrestricted portion	1,113	1,704
Noncurrent, restricted portion	25,439	17,432
Total receivables and other assets, as presented in the basic financial statements	$57,069	$44,074

4. Capital Lease Receivable and Liability (Sale/Leaseback – Revenue Transit Vehicles)

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 recorded a gain on the sale of approximately $2,015,000, 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, 2005 and 2004, the balance of the deferred gain was $1,107,000 and $1,162,000, respectively. The balance of both the receivable and the liability was $17,349,000 and $20,504,000 as of June 30, 2005 and 2004, respectively and is reflected in the statements of net assets as a capital lease receivable and capital lease liability, respectively. Other than the cash received upon the sale, no cash will be exchanged between the parties in settlement of the receivable and liability.

At June 30, 2005 and 2004 the balances of the capital lease receivable and of the capital lease liability related to the sale/leaseback are summarized as follows:

(dollar amounts in thousands)	2005	2004
Amounts at beginning of year	$20,504	$23,658
Amounts collected/repaid during the year	(3,155)	(3,154)
Balance at end of year	17,349	20,504
Less — current portion	(3,154)	(3,154)
Net noncurrent portion	$14,195	$17,350

The District's capital lease receivable and capital lease liability have the following maturities for each of the next five fiscal years and thereafter, which are summarized as follows:

(dollar amounts in thousands) Fiscal Year Ending June 30	Annual Installments
2006	$ 3,154
2007	3,154
2008	3,154
2009	3,154
2010	3,154
2011	1,579
	$ 17,349

Accumulated depreciation related to the C-2 rail cars covered by the sale/leaseback agreement totaled $18,673,000 and $16,820,000 as of June 30, 2005 and 2004, respectively.

5. Capital Assets

Changes to capital assets during the year ended June 30, 2005 were as follows:

(dollar amounts in thousands)	Lives (Years)	2004	Additions and Transfers	Retirements and Transfers	2005
Capital assets, not being depreciated					
Land	N/A	$ 481,466	$ 32,720	$ (337)	$ 513,849
Construction in progress	N/A	1,032,910	114,511	(285,612)	861,809
Total capital assets, not being depreciated		1,514,376	147,231	(285,949)	1,375,658
Capital assets, being depreciated					
Stations, track, structures and improvements	80	3,079,442	232,862	(672)	3,311,632
Buildings	80	27,333	–	(5,462)	21,871
System-wide operation and control	20	501,409	9,004	(127)	510,286
Revenue transit vehicles	30	1,037,986	4,364	(4)	1,042,346
Revenue transit vehicles under captial lease	30	55,593	–	–	55,593
Service and miscellaneous equipment	3–20	52,017	13,868	(4,469)	61,416
Capitalized construction and start-up costs	30	98,305	–	–	98,305
Repairable property items	30	16,114	47	–	16,161
Total capital assets, being depreciated		4,868,199	260,145	(10,734)	5,117,610
Less accumulated depreciation		(1,372,798)	(128,697)	6,096	(1,495,399)
Total capital assets, being depreciated, net		3,495,401	131,448	(4,638)	3,622,211
Total capital assets, net		$ 5,009,777	$ 278,679	$ (290,587)	$ 4,997,869

Changes to capital assets during the year ended June 30, 2004 were as follows:

(dollar amounts in thousands)	Lives (Years)	2003	Additions and Transfers	Retirements and Transfers	2004
Capital assets, not being depreciated					
Land	N/A	$ 476,202	$ 5,854	$ (590)	$ 481,466
Construction in progress	N/A	1,011,921	126,827	(105,838)	1,032,910
Total capital assets, not being depreciated		1,488,123	132,681	(106,428)	1,514,376
Capital assets, being depreciated					
Stations, track, structures and improvements	80	3,001,233	78,390	(181)	3,079,442
Buildings	80	26,632	701	–	27,333
System-wide operation and control	20	502,195	10,830	(11,616)	501,409
Revenue transit vehicles	30	1,029,729	8,257	–	1,037,986
Revenue transit vehicles under captial lease	30	55,593	–	–	55,593
Service and miscellaneous equipment	3–20	52,264	1,923	(2,170)	52,017
Capitalized construction and start-up costs	30	98,305	–	–	98,305
Repairable property items	30	16,249	(17)	(118)	16,114
Total capital assets, being depreciated		4,782,200	100,084	(14,085)	4,868,199
Less accumulated depreciation		(1,270,846)	(116,568)	14,616	(1,372,798)
Total capital assets, being depreciated, net		3,511,354	(16,484)	531	3,495,401
Total capital assets, net		$ 4,999,477	$ 116,197	$ (105,897)	$ 5,009,777

The District is currently involved in construction of Phase 1 of an extension program that will add 38 miles of track and 10 new stations to the system at a total cost of approximately $3,477,127,000. Of these 10 new stations included in Phase 1, the stations at the Dublin/Pleasanton, Pittsburg/Bay Point, Colma and San Francisco International Airport extensions are open and in service. The funding for Phase 1 comes from the federal government ($877,634,000), State of California ($741,770,000), San Mateo County ($502,719,000), Alameda and Contra Costa Counties ($505,000,000), bridge tolls ($279,811,000), San Francisco International Airport ($200,000,000), and the District ($370,193,000).

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $492,974,000 at June 30, 2005, ($548,306,000 in 2004).

Under the Federal Full Funding Grant Agreement, $1,347,230,000 was approved for project costs associated with the San Francisco International Airport Extension ("SFO Extension project") with funding participation from the federal government, State of California and certain local agencies. As a local funding participant, the San Francisco International Airport Commission ("SFIA") pledged to contribute funds to the federally approved project of up to $77,000,000. The District entered into various agreements with the City and County of San Francisco, acting by and through SFIA, which defined the specific project costs that could be funded from the $77,000,000 contribution. The agreement stated that the contribution would be used for the eligible BART Operating Systems Work on the portion of the project related to the San Francisco International Airport station ("On Airport project"). Eligible project costs include the design, construction, construction support, management and oversight, general and administrative costs and other associated costs of the On Airport project. Based on the agreements between SFIA and the District, SFIA shall own all rights, titles and interest associated with the assets paid from the $77,000,000 until the end of the projected useful life of each asset at which time, all of SFIA's rights, titles and interest associated with the assets shall transfer to the District, without payment by the District. The risk of loss on all assets acquired from the SFIA contributions are, at all times, assumed by the District.

The construction of the SFO Extension project was substantially completed in 2003 and revenue operations started on June 22, 2003. All costs incurred as of June 30, 2005, including those paid from and/or incurred against the SFIA contribution, have been capitalized to capital assets and accordingly are subject to depreciation. As of June 30, 2005, the capital assets related to the SFIA contribution amounted to $61,186,000 with an accumulated depreciation of $1,777,000.

6. Accounts Payable and Other Liabilities

The District reports the following aggregated payables as accounts payable and other liabilities in the statements of net assets as of June 30, 2005 and 2004:

(dollars amounts in thousands	2005	2004
Payable to vendors and contractors	$ 71,401	$ 88,639
Employee salaries and benefits	70,152	62,642
Accrued interest payable	22,542	24,139
MTC advance for debt service	11,979	10,866
Liabilities at the end of year	176,074	186,286
Less noncurrent portion, reported as other liabilities	(657)	(769)
Net current portion	$175,417	$185,517

7. Long-Term Debt

Long-term debt activity for the years ended June 30, 2005 and 2004 is summarized as follows:

(dollar amounts in thousands)	2004	Additions/ Accretion	Payments/ Amortization	2005
1990 Sales Tax Revenue Refunding Bonds	$ 38,390	$ –	$ (9,615)	$ 28,775
1995 Sales Tax Revenue Bonds	49,800	–	(2,210)	47,590
1998 Sales Tax Revenue Bonds	345,050	–	(3,860)	341,190
1999 Sales Tax Revenue Bonds	133,160	–	(1,860)	131,300
2001 Sales Tax Revenue Bonds	165,965	–	–	165,965
TFA Bridge Toll Notes	38,355	–	(8,075)	30,280
Construction Loans	115,825	8,075	–	123,900
FTA Capital Grant Bonds	281,540	–	(150,290)	131,250
Lease/Leaseback Obligation	190,652	13,497	(6,716)	197,433
2002 SFO Extension Premium Fare Bonds	56,715	–	–	56,715
2004 SFO Extension Refunding Bonds	66,000	–	–	66,000
2005 General Obligation Bonds	–	100,000	–	100,000
	1,481,452	121,572	(182,626)	1,420,398
Less: debt related items*	(15,392)	789	274	(14,329)
Long-term debt net of debt related items	1,466,060	$122,361	$(182,352)	1,406,069
Less: current portion of long-term debt	(93,631)			(172,782)
Net long-term debt	$1,372,429			$1,233,287

** Debt related items consist of deferred bond issuance costs, discounts and premiums.*

(dollar amounts in thousands)	2003	Additions/ Accretion	Payments/ Defeasance and Amortization	2004
1990 Sales Tax Revenue Refunding Bonds	$ 47,322	$ 618	$ (9,550)	$ 38,390
1995 Sales Tax Revenue Bonds	51,920	–	(2,120)	49,800
1998 Sales Tax Revenue Bonds	345,965	–	(915)	345,050
1999 Sales Tax Revenue Bonds	134,945	–	(1,785)	133,160
2001 Sales Tax Revenue Bonds	168,650	–	(2,685)	165,965
TFA Bridge Toll Notes	46,035	–	(7,680)	38,355
Construction Loans	108,145	7,680	–	115,825
FTA Capital Grant Bonds	368,035	–	(86,495)	281,540
Lease/Leaseback Obligation	194,407	13,457	(17,212)	190,652
2002 SFO Extension Premium Fare Bonds	56,715	–	–	56,715
2004 SFO Extension Refunding Bonds	–	66,000	–	66,000
	1,522,139	87,755	(128,442)	1,481,452
Less: debt related items	(13,190)	(2,086)	(116)	(15,392)
Long-term debt net of debt related items	1,508,949	$ 85,669	$(128,558)	1,466,060
Less: current portion of long-term debt	(100,442)			(93,631)
Net long-term debt	$1,408,507			$1,372,429

** Debt related items consist of deferred bond issuance costs, discounts and premiums.*

1990 Sales Tax Revenue Refunding Bonds (the 1990 Bonds)

In July 1990, the District issued sales tax revenue refunding bonds totaling $158,478,000 to refund and defease $141,045,000 outstanding principal amount of the District's Sales Tax Revenue Bonds, Series 1985. The 1990 Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. At June 30, 2005, the 1990 Bonds consist of $28,775,000 in current interest serial bonds due from 2010 to 2011 with an interest rate of 6.75%. The 1990 Bonds included capital appreciation bonds with an accreted value of $21,252,000 and which matured and were fully paid on July 1, 2004.

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 1995 Bonds are special obligations of the District payable from and collateralized by a pledge of sales tax revenues. In July 2001, the District used part of the proceeds from the 2001 Sales Tax Revenue Bonds to defease $18,585,000 in serial bonds due from 2002 to 2010 and $19,915,000 in term bonds due from 2012 to 2015. At June 30, 2005, the 1995 Bonds consist of $17,230,000 in serial bonds due from 2005 to 2011 with interest rates ranging from 5.15% to 5.7% and $30,360,000 in 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 may be redeemed prior to their respective maturities 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 obligations 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 1998 Bonds are special obligations of the District payable from and collateralized by a pledge of sales tax revenues. At June 30, 2005, the 1998 Bonds consist of $148,820,000 in serial bonds due from 2005 to 2018 with interest rates ranging from 4.13% to 5.50%, a $79,105,000 term bond due July 1, 2023 with an interest rate of 4.75% and a $113,265,000 term bond due July 1, 2028 with an 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 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 1999 Bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2005, the 1999 Bonds consist of $41,285,000 in serial bonds due from 2005 to 2019 with interest rates ranging from 4.40% 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, 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 at the option of the District at prices ranging from 100% to 101%.

2001 Sales Tax Revenue Bonds (the 2001 Bonds)

In July 2001, the District issued sales tax revenue bonds totaling $168,650,000 to fund the rehabilitation of District rail cars and certain other capital improvements, to fund capital reserves to be utilized in connection with the SFO Extension project and to refund certain outstanding bonds with principal amounts of $41,175,000 to achieve cash flow savings by extending the debt service requirements further into the future and to take advantage of lower interest rates. At June 30, 2005, the 2001 Bonds consist of $57,990,000 in serial bonds due from 2012 to 2021 with interest rates ranging from 4.375% to 5.25%, a $27,420,000 term bond due July 1, 2026 with an interest rate of 5%, a $35,205,000 term bond due July 1, 2031 with an interest rate of 5%, and a $45,350,000 term bond due July 1, 2036 with an interest rate of 5.125%. The District is required to make sinking fund payments on the term bond due July 1, 2026 beginning on July 1, 2022, on the term bond due July 1, 2031 beginning July 1, 2027, and on the term bond due on July 1, 2036 beginning on July 1, 2032. In addition, the 2001 Bonds maturing on or after July 1, 2012 may be redeemed prior to their respective stated maturities, at the option of the District, as a whole or in part, on any date on or after July 1, 2011, at the principal amount called for redemption plus interest accrued thereon to the date fixed for redemption without premium.

Transit Financing Authority (Authority) Bridge Toll Notes

In order to fund a portion of the costs of the extension project at the San Francisco International Airport (SFO Extension project), in September 1999, the Authority issued a limited liability note (the "Bridge Toll Note") in the amount of $65,680,000, payable from and collateralized solely by a pledge of certain bridge toll revenues allocated to the District by MTC. At June 30, 2005, the notes outstanding amount to $30,280,000 with interest rates ranging from 5.00% to 5.75% and mature from August 2005 through February 2007. (For information on the Authority, see Notes 1 and 15.)

Construction Loans

In March 1999, the District, MTC and San Mateo County Transit District ("SamTrans") entered into a Memorandum of Understanding ("MOU"), which provided additional funds for the SFO Extension project.

Pursuant to the MOU, the construction loans as of June 30, 2005, consist of funds received for the SFO Extension project costs from SamTrans for $72,000,000 and MTC for $16,500,000 and $35,400,000 from MTC for the SFO Extension project's temporary cash requirements. The District provided $50,000,000 of its own funds to assist with the financing of the SFO Extension project costs. The terms and conditions of the MOU provide that the loans for project costs will be repaid, without interest, from the future net operating surplus generated by the SFO Extension. Such repayments of the project cost loans from SamTrans and MTC totaling $88,500,000 plus the District's $50,000,000, will commence after SamTrans' capital contribution to the District's Warm Springs Extension project is fully paid from future net operating surplus. MTC's loan for the project's temporary cash requirements of $35,400,000 will be repaid, without interest, when the District receives the last Federal Full Funding Grant allocation for the SFO Extension project, currently expected to be in fiscal year 2006.

FTA Capital Grant Bonds

On February 15, 2001, the Association of Bay Area Governments ("ABAG") issued BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A, in the amount of $485,350,000. The FTA Capital Grant bonds were issued for the benefit of the District's SFO Extension project. The proceeds were used mainly to provide additional financing for the SFO Extension and to refund and defease $300,000,000 aggregate principal amount of the San Francisco Bay Area Transit Financing Authority Commercial Paper Notes, Series A, B, C, D, E and F. The bonds are limited obligations of ABAG and are payable from the monies coming from the Federal Full Funding Grant Agreement between the United States Department of Transportation, Federal Transit Administration and the District for the District's SFO Extension project. The District's obligation to make bond payments is not a general obligation of the District. Payment of the principal and interest on the bonds when due are insured by a financial guaranty insurance policy issued by an insurance company. In fiscal year 2005, $1,040,000 ($28,000,000 in fiscal year 2004) of the bonds due in fiscal year 2008 and $87,955,000 of the bonds due in fiscal year 2009 were paid in advance. At June 30, 2005, the bonds outstanding amount to $131,250,000 in serial bonds, with interest rates ranging from 3.625% to 5.0% with maturities from June 15, 2006 to June 15, 2009.

Lease/Leaseback Obligation

On March 19, 2002, the District entered into a transaction to lease rail traffic control equipment (the "Network") to investors through March 19, 2042 (the "head lease") and simultaneously sublease the Network back through January 2, 2018 (the "sublease"). At the expiration of the sublease term the District has the option to purchase back the remaining head lease interest.

At closing, the Network had a fair market value of approximately $206,000,000 and a book value of $203,000,000. Under the terms of the head lease, the District received a prepayment equivalent to the net present value of the head lease obligation totaling approximately $206,000,000, of which the District paid approximately $146,000,000 to a Payment Undertaker. Under the terms of the agreement, the Payment Undertaker committed to pay the debt portion of the District's sublease obligation and to set aside funds to enable the District to exercise its purchase option of the head lease interest, if it chooses to do so. Of the remaining head lease proceeds, approximately $37,000,000 was deposited to a trust account to be used to pay the remaining equity portion of the District's sublease obligation and to set aside additional funds to enable the District to exercise its purchase option of the head lease interest, if it chooses to do so. The District received cash from the lease/leaseback transaction amounting to approximately $23,000,000. The cash gain was deferred and is being amortized over a period of 15.75 years through January 2, 2018. In accordance with generally accepted accounting principles in the United States of America, the District has reflected this transaction as a financing transaction. The District has recorded the payment to the Payment Undertaker as a deposit for sublease obligation and the deposit to the trust account as investments, and the net present value of the future sublease payments and exercise price of the purchase option as long-term debt.

Under this transaction, the District maintains the right to continued use and control of the Network through the end of the sublease term.

The details of the lease/leaseback obligation are as follows:

(dollar amounts in thousands)	2005	2004
Long-term debt at beginning of year	$190,652	$194,407
Interest expense incurred during the year	13,497	13,457
Payments made during the year	(6,716)	(17,212)
	197,433	190,652
Lease payments due in one year	(46,647)	(6,716)
Net long-term debt at end of year	$150,786	$183,936

2002 SFO Extension Premium Fare Bonds (the Airport Premium Fare Bonds)

On October 1, 2002, the Association of Bay Area Governments ("ABAG") issued BART SFO Extension Bonds ("Airport Premium Fare Bonds"), 2002 Series, in the amount of $56,715,000. The Airport Premium Fare Bonds were issued for the benefit of the District's SFO Extension project. The proceeds were used to finance a portion of the costs of the SFO Extension project, including all system-wide and associated improvements and expenditures related to the extension. The Airport Premium Fare Bonds are limited obligations of ABAG payable solely from and collateralized solely by amounts received from the District pursuant to a Pledge and Contribution Agreement, dated October 1, 2002, between ABAG and the District. The Airport Premium Fare Bonds are not a general obligation of ABAG. The District's obligation to make payments under the Pledge and Contribution Agreement is limited to and payable solely from and collateralized solely by a pledge of the premium fare imposed and collected by the District from passengers who board or depart the District's rapid transit system at the San Francisco International Airport station. The District's obligation to make such payments under the Pledge and Contribution Agreement is not a general obligation of the District. The payment of the principal and interest when due are insured by a financial guaranty insurance policy issued by an insurance company. At June 30, 2005, the 2002 Airport Premium Fare Bonds consist of $21,515,000 in serial bonds due from 2006 to 2022 with interest rates ranging from 2.25% to 5.0%, a $11,230,000 term bond due August 1, 2026 with an interest rate of 5.0%, and a $23,970,000 term bond due August 1, 2032 with an interest rate of 5%. The District is required to make sinking fund payments on the term bond due August 1, 2026 beginning on August 1, 2023 and on the term bond due August 1, 2032 beginning on August 1, 2027.

2004 SFO Extension Refunding Bonds (the Airport Refunding Bonds)

On June 14, 2004, ABAG issued BART SFO Extension Refunding Bonds (FTA Capital Grant), 2004 Series A (Auction Rate Securities) with an aggregate principal amount of $66,000,000 for the benefit of the District. The Airport Refunding Bonds were issued in order to refund a portion of the ABAG BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A, to fund the reserve fund deposit with respect to the Airport Refunding Bonds, and to pay certain costs of issuance of the bonds. The issuance of the Airport Refunding Bonds had the effect of freeing up $14,600,000 from the debt service reserve fund of the BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A, and making the amount available as an additional source of cash for the payment of the SFO Extension Project expenditures. The Airport Refunding Bonds are limited obligations of ABAG payable solely from and collateralized by amounts received from the District pursuant to the Pledge Agreement dated February 1, 2001 between ABAG and the District, amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund and any Bond Purchase Fund), and investment earnings thereon. Amounts payable by the District pursuant to the Pledge Agreement are payable solely from and collateralized by amounts received by the District pursuant to a Full Funding Grant Agreement with the United States of America, acting through the Department of Transportation, Federal Transit Administration (the "Grant Agreement") and revenues, if any, under an interest rate cap agreement executed by the District in connection with the Airport Refunding Bonds. The financial obligation of the District under the Pledge Agreement is solely to transfer all receipts under the Grant Agreement to the Trustee. The Airport Refunding Bonds are not a general obligation of ABAG. The Airport Refunding Bonds were issued initially as Auction Rate Securities at an interest rate of 1.05%. Thereafter, the Airport Refunding Bonds will bear interest at the Auction Rate for the Auction Period, until a conversion to a daily, weekly, bond interest term or long-term interest rate period occurs. The initial auction period was on June 21, 2004, with the subsequent auction dates generally scheduled on each Monday of each week. The last auction date in fiscal year 2005 was on June 27, 2005 and the winning interest rate was 1.950%. An auction period generally consists of seven days. Interest payments are payable on the day following the end of each auction period. Payment of the principal and interest when due is insured by a financial guaranty insurance policy issued by an insurance company. At June 30, 2005, the balance of bonds outstanding is $66,000,000 due from 2008 to 2009. The Airport Refunding Bonds are not subject to optional tender for purchase, nor does the District have a commitment to purchase them in the event of a "failed" auction. However, the bonds would be subject to mandatory tender if the District elects to convert the bonds to a different interest rate mode, provided certain conditions regarding the conversion are satisfied.

The interest rate cap effectively limits the amount the District may be required to pay pursuant to the Pledge Agreement. Since the interest rate on the Airport Refunding Bonds is reset weekly, the District chose to hedge its exposure to high interest rates by the purchase of the interest rate cap.

Terms

Under the interest rate cap agreement, the District will receive, on an annual basis, payments from Citibank N.A. should the BMA Municipal Swap Index TM ("BMA"), or any successor index, exceed 7.00%. The District paid $248,000 upfront to Citibank N.A. for the interest rate cap for the full term of the agreement. As of June 30, 2005, the notional amount of the rate cap was $66,000,000, which was equivalent to the amount of outstanding Airport Refunding Bonds as of that date; the notional amount will be reduced to $19,975,000 on June 15, 2008 corresponding to a scheduled principal reduction on the Airport Refunding Bonds as of that date. The agreement terminates on June 15, 2009, which is the final maturity of the Airport Refunding Bonds.

Credit Risk

As of June 30, 2005, the interest rate cap agreement had a fair market value of $2,000. Citibank N.A. is rated Aa1 by Moody's Investors Service, AA by Standard & Poor's, and AA+ by Fitch Ratings.

Basis Risk

The interest rate cap agreement exposes the District to basis risk due to any difference between the actual variable interest rate on the Airport Refunding Bonds and BMA. While BMA is a national tax-exempt index commonly used as a proxy for variable rate transactions, there is no guarantee that BMA will perform exactly as the District's variable interest rate. While the District believes BMA is a reasonable proxy for the District's expected variable interest rate, it is possible that the District's variable interest rate could exceed 7.00% while BMA does not. In this case the District would pay interest costs in excess of 7.00%.

Termination Risk

The District retains the right to terminate the interest rate cap prior to maturity. If the interest rate cap agreement is terminated, the interest rate on the Airport Refunding Bonds would no longer be effectively capped at 7.00%.

2005 General Obligation Bonds (the 2005 GO Bonds)

In May 2005, the District issued the General Obligation Bonds (Elections 2004), 2005 Series A (2005 GO Bonds) with an aggregate principal amount of $100,000,000. The 2005 GO Bonds constitute a portion of the total authorized amount of $980,000,000 of general obligation bonds of the District duly authorized by at least two-thirds of the qualified voters of the District voting on a ballot measure ("Measure AA") at an election held on November 2, 2004. The 2005 GO Bonds constitute the first issue of general obligation bonds being issued pursuant to the Measure AA authorization. The 2005 GO Bonds were issued to finance earthquake safety improvements to BART facilities, including aerial trackway structures, underground trackway structures, including the Transbay Tube, and at-grade trackway structures, stations, and administrative, maintenance, and operations facilities and to finance additional retrofits to facilitate a rapid return to service after an earthquake or other disasters. The 2005 GO Bonds are general obligations of the District, payable from and secured solely by ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except for certain personal property which is taxable at limited rates) levied in Alameda and Contra Costa Counties and the City and County of San Francisco. No other revenues of the District are pledged to the payment of the 2005 GO Bonds. At June 30, 2005, the 2005 GO Bonds consist of $80,385,000 in serial bonds due from 2006 to 2026 with interest ranging from 2.75% to 5.0%, a $7,720,000 term bond at 4.50% due in 2030 and a $11,895,000 term bond at 5.00% due in 2035. The District is required to make sinking fund payments on the term bond due in 2030 beginning in 2027 and on the term bond due in 2035 beginning in 2031.

Defeased Bonds

In March 1998, the District defeased several bonds amounting to $155,115,000 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 in-substance 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. The amount outstanding on these defeased bonds was $23,615,000 at June 30, 2005.

In July 2001, the District defeased a portion of the 1991 and 1995 Sales Tax Revenue Bonds amounting to $41,175,000 by placing part of the proceeds of the 2001 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 in-substance debt defeasance, and the defeased 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. The amount outstanding on these defeased bonds was $33,295,000 at June 30, 2005.

The District deferred and amortized as a component of interest the difference between the reacquisition price and the net carrying amount of the old debt of $9,143,000 related to the defeasance from the proceeds of the 1998 and 2001 Sales Tax Revenue Bonds. These deferred charges are amortized over the life of the defeased bonds. Amortization expense on these deferred charges was $478,000 in fiscal years 2005 and 2004.

Arbitrage Bonds

The District is subject to certain bond covenants, including the rules set forth by IRS Code Section 148a, which requires that interest earned on the proceeds of a tax exempt bond issuance does not exceed the interest expense related to those bonds, which qualifies those bonds as arbitrage bonds. Any excess interest income is subject to a 100% tax and is payable to the federal government. As of June 30, 2005, the District has recorded an estimated arbitrage liability amounting to $1,582,000 ($2,820,000 in 2004), which is included in other liabilities in the statements of net assets.

Debt Repayments

The following is a schedule of long-term debt principal and interest payments required as of June 30, 2005:

(dollar amounts in thousands)	Sales Tax Revenue Bonds									
Year ending June 30:	1990 Bonds Principal	1990 Bonds Interest	1995 Bonds Principal	1995 Bonds Interest	1998 Bonds Principal	1998 Bonds Interest	1999 Bonds Principal	1999 Bonds Interest	2001 Bonds Principal	2001 Bonds Interest
2006	$ –	$ 1,942	$ 2,315	$ 2,488	$ 13,775	$ 16,271	$ 1,940	$ 6,945	$ –	$ 8,341
2007	–	1,942	2,435	2,360	14,675	15,666	2,025	6,854	–	8,341
2008	–	1,942	2,555	2,223	15,415	14,818	2,115	6,756	–	8,341
2009	–	1,942	2,685	2,077	16,405	14,113	2,215	6,652	–	8,341
2010	–	1,942	2,830	1,920	17,265	13,163	2,315	6,541	–	8,341
2011-2015	28,775	1,006	9,435	7,888	34,915	60,224	13,405	30,746	24,125	39,469
2016-2020	–	–	20,125	4,011	47,610	49,825	17,270	26,660	24,680	31,627
2021-2025	–	–	5,210	–	88,365	32,702	22,420	21,187	24,810	25,976
2026-2030	–	–	–	–	92,765	7,240	29,305	13,926	31,860	18,751
2031-2035	–	–	–	–	–	–	38,290	4,437	40,945	9,409
2036-2040	–	–	–	–	–	–	–	–	19,545	514
	$28,775	$10,716	$47,590	$22,967	$341,190	$224,022	$131,300	$130,704	$165,965	$167,451

(dollar amounts in thousands) Year ending June 30:	TFA Bridge Toll Notes Principal	TFA Bridge Toll Notes Interest	Construction Loans Principal	Construction Loans Interest	FTA Capital Grant Bonds Principal	FTA Capital Grant Bonds Interest	Lease/Leaseback Obligation Principal	Lease/Leaseback Obligation Interest
2006	$ 8,495	$1,317	$ 35,400	$ –	$ 64,210	$ 6,028	$ 46,647	$ 12,094
2007	21,785	560	–	–	46,330	3,082	30,230	10,040
2008	–	–	–	–	5,000	914	7,004	8,739
2009	–	–	–	–	15,710	692	2,041	8,550
2010	–	–	–	–	–	–	21,239	7,900
2011-2015	–	–	–	–	–	–	7,157	40,142
2016-2020	–	–	–	–	–	–	83,115	28,160
2021-2025	–	–	–	–	–	–	–	–
2026-2030	–	–	–	–	–	–	–	–
2031-2035	–	–	–	–	–	–	–	–
2036-2040	–	–	–	–	–	–	–	–
Thereafter	–	–	88,500	–	–	–	–	–
	$30,280	$1,877	$123,900	$ –	$131,250	$10,716	$197,433	$115,625

(dollar amounts in thousands)	2002 SFO Extension Premium Fare Bonds		2004 SFO Extension Refunding Bonds*		2005 General Obligation Bonds		Total	
Year ending June 30:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ –	$ 2,737	$ –	$1,287	$ –	$ 4,011	$ 172,782	$ 63,461
2007	550	2,722	–	1,287	12,815	3,660	130,845	56,514
2008	570	2,709	46,025	1,287	19,865	2,854	98,549	50,583
2009	640	2,693	19,975	390	25,960	1,955	85,631	47,405
2010	715	2,672	–	–	870	1,856	45,234	44,335
2011-2015	4,855	12,852	–	–	4,760	8,838	127,427	201,165
2016-2020	7,740	11,285	–	–	5,665	7,859	206,205	159,427
2021-2025	11,650	8,802	–	–	7,090	6,324	159,545	94,991
2026-2030	16,805	5,165	–	–	3,360	4,330	174,095	49,412
2031-2035	13,190	743	–	–	7,720	1,888	100,145	16,477
2036-2040	–	–	–	–	11,895	11	31,440	525
Thereafter	–	–	–	–		–	88,500	–
	$56,715	$52,380	$66,000	$4,251	$100,000	$43,586	$1,420,398	$ 784,295

A rate of 1.950%, which was the actual rate as of June 30, 2005, was used for the purposes of calculating the annual interest payment requirements for the 2004 SFO Extension Refunding Bonds.

8. Risk Management

The District is partially self-insured for workers' compensation, public liability and property damage claims. Beginning July 2004, the self-insured retention for workers' compensation was increased from $2,500,000 to $4,000,000. The self-insured maximum for public liability and property damage remains at $2,000,000 for any one occurrence. Claims in excess of self-insured retentions are covered up to a total of $98,000,000 by insurance policies. There have been no settlement amounts during the past three years that have exceeded the District's insurance coverage.

The self-insurance programs are administered by independent claims adjustment firms. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities are discounted at a 5% rate and are based, in part, upon the independent adjustment firms' estimate of reserves necessary for the settlement of outstanding claims and related administrative costs, and include estimates of claims that have been incurred but not yet reported, including loss adjustment expenses. Such reserves are reviewed by professional actuaries and are subject to periodic adjustments as conditions warrant.

The estimated liability for insurance claims at June 30, 2005 is believed to be sufficient to cover any costs arising out of claims filed or to be filed for accidents occurring through that date. At June 30, 2005 and 2004, the amount of these liabilities was $28,640,000 and $27,007,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal year are as follows:

(dollar amounts in thousands)	2005	2004
Liabilities at beginning of year	$27,007	$ 29,025
Current year claims and changes in estimates	11,953	7,910
Payments of claims	(10,320)	(9,928)
Liabilities at the end of year	28,640	27,007
Less current portion	(9,340)	(10,155)
Net noncurrent portion	$19,300	$ 16,852

9. Federal Financial Assistance

The U.S. Department of Transportation provides financial assistance to the District for capital projects, planning and technical assistance. Cumulative information for grants which were active during the year ended June 30, 2005 are summarized as follows:

(dollar amounts in thousands)	SFO Extension Project
Total approved project costs	$1,347,230
Total approved federal allocations received	635,312
Less: cumulative amounts of project costs incurred and earned	(750,750)
Capital grants receivable	$ (115,438)

(dollar amounts in thousands)	Other Capital Projects
Total approved project costs	$762,832
Total approved federal allocations	618,116
Less: cumulative amounts of project costs incurred and earned	(492,404)
Remaining approved federal allocation	$125,712

The SFO Extension Project is mainly covered by a Federal Full Funding Grant Agreement in the amount of $750,000,000, 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.

10. State and Local Financial Assistance

Capital Assistance

The District is eligible to receive local operating and capital assistance from the Transportation Development Act Funds ("TDA"). There was no TDA operating or capital assistance received in fiscal years 2005 or 2004.

The District may be entitled to receive state operating and capital assistance from the State Transit Assistance Funds ("STA"). These funds are allocated by MTC based on the ratio of the District's transit operation revenue and local support to the revenue and local support of all state transit agencies. The District received an STA capital allocation amounting to $1,170,000 in October 2003, of which $837,000 was earned during fiscal year 2005 (zero in fiscal year 2004).

Operating Assistance

The District receives Paratransit funds provided to cities and transit operators from Alameda County Measure B funds to be used for services aimed at improving mobility for seniors and persons with disabilities. The Alameda County Transportation Improvement Authority ("ACTIA") is the administrator of Measure B funds. A summary of the transactions related to the Measure B funds allocated to the District for fiscal years 2005 and 2004 are as follows:

(dollar amounts in thousands)	2005	2004
Prior year allocation received as revenue in the current year	$ 8	$ 209
Current year allocation received as revenue in the current year	1,211	1,054
Current year allocation accrued as revenue in the current year	240	344
	$1,459	$1,607

The District's revenues in fiscal 2005 and 2004 that relate to the Measure B funds were $1,459,000 and $1,607,000, respectively.

The financial assistance from San Mateo County Transit District ("SamTrans") relates to the reimbursement of a portion of the operating costs in excess of fare revenues identified to the SFO Extension, which covers the Colma, South San Francisco, San Bruno, San Francisco International Airport and Millbrae stations. For fiscal year ended June 30, 2005, the District recognized $14,730,000 ($18,268,000 in 2004) in operating financial assistance from SamTrans.

11. Employees' Retirement Benefits

Plan Description

All employees are eligible to participate in the Public Employees' Retirement Fund (the "Fund") of the State of California's Public Employees' Retirement System ("CalPERS") under the Miscellaneous Plan and the Safety Plan of the San Francisco Bay Area Rapid Transit District. The Fund is an agent multiple-employer defined-benefit retirement plan that acts as a common investment and administrative agent for 2,582 local public agencies and school districts within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and District contractual agreements.

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

Funding Policy and Annual Pension Cost

The 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 contractual agreements. The individual entry age normal cost method is used to determine the normal cost. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age. 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.

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2005 and 2004 was $234,793,000 and $222,678,000, respectively. The District's 2005 and 2004 payroll for all employees was $261,269,000 and $245,589,000, respectively. The District, due to Collective Bargaining Agreements, also reimburses the employees for their contributions, which are 9% for public safety personnel and 7% for miscellaneous covered employees. Effective October 1, 2001 and through June 30, 2004, due to the 2001 Collective Bargaining Agreements and because of the superfunded status of the Miscellaneous Plan, all employees, except sworn police officers, were not required to make contributions to the Fund.

Through fiscal year 2004, the Miscellaneous Plan was considered superfunded which means that the actuarial value of assets exceeds the present value of benefits. Because of the superfunded status, the District was not required to make contributions to the Miscellaneous Plan for covered employees. Instead, the District was allowed to cover the Miscellaneous employees' member contributions using the employer assets in the Miscellaneous Plan. Beginning in fiscal year 2005, the Miscellaneous Plan was no longer superfunded. Hence, the District resumed its contributions to the Miscellaneous Plan for covered employees.

The annual required contribution for fiscal year 2005 was determined by an actuarial valuation of the Plans as of June 30, 2002. The contribution rates for fiscal year 2005 were 2.615% (0% in 2004) of covered payroll for the Miscellaneous Plan and 28.910% (2.897% in 2004) for the Safety Plan. The significant actuarial assumptions used in the 2002 valuation to determine the annual required contribution were an investment rate of return of 8.25%, projected salary increases from 5.75% to 14.20% depending on age, service and type of employment, and annual payroll increases of 3.50% attributable to inflation and 0.25% due to production growth.

Since the District has made the actuarially-determined required contributions since 1988, the pension liability or asset was zero at June 30, 2005, in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

The three-year trend information for the Fund of the actuarially required employer contribution is as follows:

(dollar amounts in thousands)	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
Miscellaneous Plan:	June 30, 2003	$ –	–	$ –
	June 30, 2004	$ –	–	$ –
	June 30, 2005	$ 5,586	100%	$ –
Safety Plan:	June 30, 2003	$ 221	100%	$ –
	June 30, 2004	$ 465	100%	$ –
	June 30, 2005	$ 4,534	100%	$ –

Funded Status

The funding status applicable to the District's employee group at June 30, 2004 (the latest available for the Fund) is summarized as follows:

Funded Status of the Miscellaneous Plan

(dollar amounts 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 (%)
6/30/02	$ 801,662	$944,685	$(143,023)	117.8	$196,260	(72.9)
6/30/03	939,072	950,571	(11,499)	101.2	202,170	(5.7)
6/30/04	1,023,593	992,217	31,376	96.9	209,675	15.0

Funded Status of the Safety Plan

(dollar amounts 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 (%)
6/30/02	$ 78,154	$ 80,207	$ (2,053)	102.6	$ 12,753	(16.1)
6/30/03	100,960	82,329	18,631	81.5	14,277	130.5
6/30/04	113,237	87,575	25,662	77.3	16,040	160.0

12. Money Purchase Pension Plan

Most District employees participate in the Money Purchase Pension Plan, which is a supplemental retirement defined contribution plan. In January 1981, the District's employees elected to withdraw from the Federal Social Security System ("FICA") and established the Money Purchase Pension Plan. The District contributes an amount equal to 6.65% of eligible employees' annual compensation (up to $29,700 after deducting the first $133 paid during each month) up to a maximum annual contribution of $1,868. Non-represented employees receive an additional 1.627% of annual regular earnings up to $160,000. Additionally, effective October 1, 2001 and through June 30, 2004, most employees received 3.5% of their wages subject to certain funding thresholds in the CalPERS Retirement Plan. Each employee's account is available for distribution upon such employee's termination.

The District's total expense and funded contribution for this plan for the years ended June 30, 2005 and 2004 were $7,050,000 and $6,947,000, respectively. The Money Purchase Pension Plan assets at June 30, 2005 and 2004 (excluded from the accompanying financial statements) per the plan administrator's unaudited report were $258,846,000 and $260,656,000, respectively. At June 30, 2005, there were approximately 274 (251 in 2004) participants receiving benefits under this plan.

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

13. Other Postemployment Benefits

Postemployment Health Care Cost

In addition to the retirement benefits described in Notes 11 and 12, and specified in the District's contractual agreements, the District provides postemployment health care benefits assistance to employees. Most employees who retire directly from the District or their surviving spouses are eligible if the employee retires at or after age 50 with a minimum of 5 years of service with the District, elects to take an annuity from CalPERS and makes a timely election of retiree medical. Currently, 1,061 retirees and surviving spouses (915 in 2004) are provided this benefit. The District paid up to $655,000 and $508,000 per month for health insurance premiums for the retirees and surviving spouses during fiscal years 2005 and 2004, respectively. These benefits, less a modest premium contribution, are fully paid by the District and accounted for on a pay-as-you-go basis. Cash reimbursements of these benefits totaled $7,124,000 in 2005 ($5,525,000 in 2004).

Retiree Health Benefit Trust

In 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The new GASB statement will require the District to change its accounting for OPEB from pay-as-you-go to an accrual basis. If an employer elects to fund its OPEB liability, GASB 45 requires that for contributions to be recognized as an offset to the employer's actuarial required contribution, the contributions must be paid out in benefits or irrevocably transferred to a trust or an equivalent arrangement, and legally protected from creditors of the employer. The District will be required to implement the requirements of Statement No. 45 beginning in fiscal year 2008.

On May 18, 2004, the District created the Retiree Health Benefit Trust for the San Francisco Bay Area Rapid Transit District (the "Trust"). The purpose of establishing the Trust is to facilitate the provision of medical benefits and other health and welfare benefits for the qualifying retirees of the District; to provide the means for financing the costs and expenses of operating and administering such benefits; to hold Trust assets for the sole and exclusive purpose of providing benefits to participants and beneficiaries; and to defray the reasonable expenses of administering the Trust and designated plans. Assets placed into the Trust cannot be used for any other purposes and are not available to satisfy general creditors of the District. Under California state law, the restrictions on the use of any proceeds from liquidation of the Trust are significant enough to render the Trust effectively irrevocable. The Trust is administered by one or more Trustees appointed by the District's Board of Directors. Currently, the Board has appointed the District's Controller-Treasurer as the Trustee.

In fiscal year 2004, the District sold shares it had received in a transaction involving the demutualization of Principal Life Insurance Company. The demutualization-related cash received was transferred to the Trust in recognition of the District's desire to set aside funds that can be used to satisfy its retiree health benefits funding obligation. In addition to the demutualization-related cash, the District had also contributed in fiscal year 2005 cash proceeds from operations, which brought the total District contributions to the Trust as of June 30, 2005 to $36,222,000, which is shown as a special item (expense) in the statements of revenues, expenses and changes in net assets. At June 30, 2005, assets held in the Trust included investment in money market, U.S. Treasury obligations, corporate obligations, foreign obligations and domestic common stock with an aggregate fair value of $39,590,000. These investments are included in the District's financial statements and are restricted to use for payment of retiree benefit liabilities that will be recorded when GASB 45 is adopted.

14. Board of Directors' Expenses

Total Directors' expenses, consisting of travel and other business related expenses for the years ended June 30, 2005 and 2004 amounted to $28,000 and $22,000, respectively.

15. Transit Financing Authority

The Joint Exercise of Powers Agreement (the "Agreement"), dated August 1, 1991, between the District and MTC provided for the creation of the Transit Financing Authority (the "Authority"), a public instrumentality of the State of California. The initial term of the Agreement was for ten years, unless extended or earlier terminated. On May 1, 1998, the term of the Agreement was extended to August 1, 2010. 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 Authority's financial information is presented as a blended component unit of the District's financial statements because the Authority provides services almost exclusively to the District.

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 or 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.

A summary of the amount and percentage of the Authority's total assets, total liabilities and total net assets as compared with the District is as follows:

(dollar amounts in thousands)	2005	2004
Authority's total assets		
Amount	$94,686	$94,258
As a % of District's total assets	1.6%	1.5%
Authority's total liabilities		
Amount	$94,686	$94,258
As a % of District's total liabilties	5.6%	5.4%
Authority's total net assets		
Amount	$ –	$ –

The Authority issues a financial report that includes financial statements and required supplementary information. This report may be obtained by contacting the District's Controller-Treasurer at 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

16. Related Organizations and Projects

Capitol Corridor Joint Powers Authority

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

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

The District charged Capitol Corridor a total of $2,982,000 for marketing and administrative services during 2005 ($2,858,000 during 2004). In addition, Capitol Corridor reimburses the District for its advances for capital project expenditures and other operating expenses. Reimbursements for expenses incurred by the District on behalf of and in providing services to Capitol Corridor are netted against the corresponding expense in the statements of revenues, expenses and changes in net assets. At June 30, 2005, unreimbursed expenses from Capitol Corridor amount to $8,262,000 ($10,072,000 as of June 30, 2004). All unreimbursed expenses are included as current receivables and other assets in the statements of net assets. As the District has no ownership involvement or ongoing financial interest or responsibility in Capitol Corridor, its financial statements include only amounts related to the services it provides to Capitol Corridor.

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.

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. In 2000, Harmon Industries was purchased by GE Transportations Systems, and Harmon became known as GE Transportation Systems, Global Signaling.

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, 2005, the District had provided the Alliance with approximately $12,758,000 in cumulative in-kind contributions. In addition, the District incurred $26,200,000 of direct costs during fiscal year 2005 and 2004, of which $948,000 was reimbursed by the Alliance. A majority of the direct costs have been capitalized as construction-in-progress on the District's financial statements. The District has no equity interest in this project.

East Bay Paratransit Consortium

In 1994, the District and the Alameda-Contra Costa Transit District ("AC Transit") executed an agreement establishing the East Bay Paratransit Consortium (the "Consortium"). The purpose of the Consortium is to enable the District and AC Transit to jointly provide paratransit services in the overlapping service area of the District and AC Transit. Revenues and expenditures for the Consortium are split 31% and 69% between the District and AC Transit, respectively, and the District's financial statements reflect its portion of revenues and expenditures as operating activities. The District supported the project primarily through its own operating funds, with some financial assistance from Alameda County Measure B funds (see Note 10). The District has no equity interest in the Consortium.

17. 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 50 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, 2005 are as follows:

(dollar amounts in thousands)	Operating Leases
2006	$ 7,176
2007	10,113
2008	10,846
2009	10,767
2010	10,668
2011-2015	44,541
2016-2020	12,500
2021-2025	12,500
2026-2030	12,500
2031-2035	12,500
2036-2040	12,500
2041-2045	12,500
2046-2050	12,500
2051-2055	2,500
Total minimum payments	$ 184,111

Rent expense under all operating leases was $9,127,000 and $7,881,000 for the years ended June 30, 2005 and 2004, respectively.

Fruitvale Development Corp.

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

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

The District provided FDC a Rent Credit with an initial amount of $7,247,000, to acknowledge its assistance in obtaining grants for the construction of a Replacement BART Commuter Parking Garage near the Fruitvale Transit Village. The Rent Credit earns interest on the outstanding balance at simple interest based on the prime rate and can only be applied to satisfy the Base Rent. Based on the agreement, FDC shall not be under any obligation to make any cash payment to the District for Base Rent at any time that Rent Credit still has a positive balance. Changes in the Rent Credit for fiscal years 2005 and 2004 are summarized as follows (dollar amounts in thousands):

	2005	2004
Rent Credit at beginning of year	$ 7,316	$ 7,247
Annual base rent applied against the credit	(98)	(98)
Interest earned during the year	363	167
Rent Credit at end of year	$ 7,581	$ 7,316

18. Subsequent Event

Issuance of Sales Tax Revenue Bonds, Refunding Series 2005 A

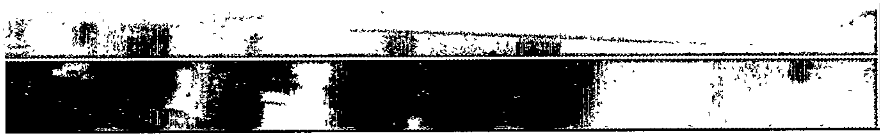
On August 10, 2005, the District issued the Sales Tax Revenue Bonds, Refunding Series 2005 A (2005 Bonds) totaling $352,095,000. The proceeds of the 2005 Bonds, including the net original issue premium of $17,151,000, were 1) placed into an irrevocable escrow account to advance refund $349,925,000 in aggregate principal amount of sales tax revenue bonds related to the Sales Tax Revenue Bonds, Series 1995, 1998, 1999, and 2001 to achieve cash flow savings and 2) to pay costs of issuance of the 2005 Bonds. The 2005 Bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. The 2005 Bonds consist of $264,625,000 in serial bonds due from 2006 to 2030 with interest rates ranging from 3.00% to 5.00% and two 5.00% term bonds in the amounts of $55,685,000 and $31,785,000 due in 2030 and 2034, respectively.

Sources and Uses of Operating Funds

(dollar amounts in thousands)	2005 Amount	2005 Percent	2004 Amount	2004 Percent
Sources of Operating Funds				
Transaction and Use Sales Tax (Net of transfers to nonoperating activities)	$ 118,879	27%	$ 111,200	26%
Passenger Fares	233,651	53%	220,391	52%
Property Tax	22,412	5%	21,372	5%
Other:				
Investment Income and Other Operating Revenues	17,113	4%	15,478	4%
Construction Funds (Capitalized Costs)	33,612	7%	34,758	8%
Local Financial Assistance	16,680	4%	19,875	5%
Total — Other	67,405	15%	70,111	17%
Total Sources of Operating Funds	$ 442,347	100%	$ 423,074	100%
Uses of Operating Funds				
Maintenance	$ 163,051	37%	$ 145,683	34%
Transportation	127,391	29%	121,257	29%
General Administration	109,130	24%	102,849	24%
Police Services	37,510	8%	31,080	7%
Construction and Engineering	16,030	4%	15,824	4%
Other:				
Capital Designation	(6,460)	–1%	8,043	2%
Decrease in Net Assets — Operating Fund	(4,305)	–1%	(1,662)	0%
Total — Other	(10,765)	–2%	6,381	2%
Total Uses of Operating Funds	$ 442,347	100%	$ 423,074	100%

Sources and Uses of Capital Funds

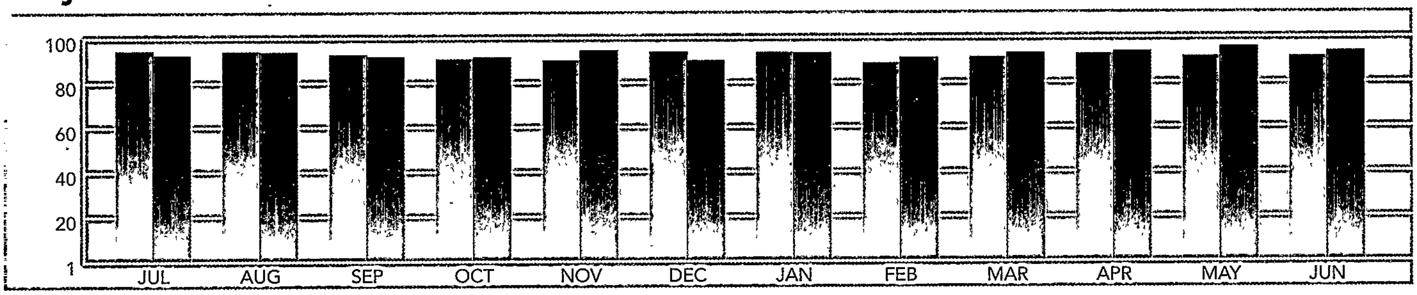
(dollar amounts in thousands)	2005 Amount	2005 Percent	2004 Amount	2004 Percent
Sources of Capital Funds				
District	$ 36,564	32%	$ 51,640	41%
Federal	35,951	31%	43,377	34%
State	14,591	13%	16,254	13%
Local	27,405	24%	15,378	12%
Total Sources of Capital Funds	$114,511	100%	$ 126,649	100%
Uses of Capital Funds				
Construction:				
Line	$ 54,388	48%	$ 60,471	48%
Systemwide	16,183	14%	17,015	13%
Support Facilities	365	0%	626	0%
Total — Construction	70,936	62%	78,112	61%
Equipment:				
Train Control	7,128	6%	6,363	5%
Transit Vehicles	9,494	8%	13,360	11%
Automatic Fare Collections	11,488	10%	24,503	19%
Management Information Systems	10,457	9%	2,878	2%
Other Equipment	3,215	3%	599	1%
Total — Equipment	41,782	36%	47,703	38%
Studies and Other	1,793	2%	834	1%
Total Uses of Capital Funds	$114,511	100%	$ 126,649	100%



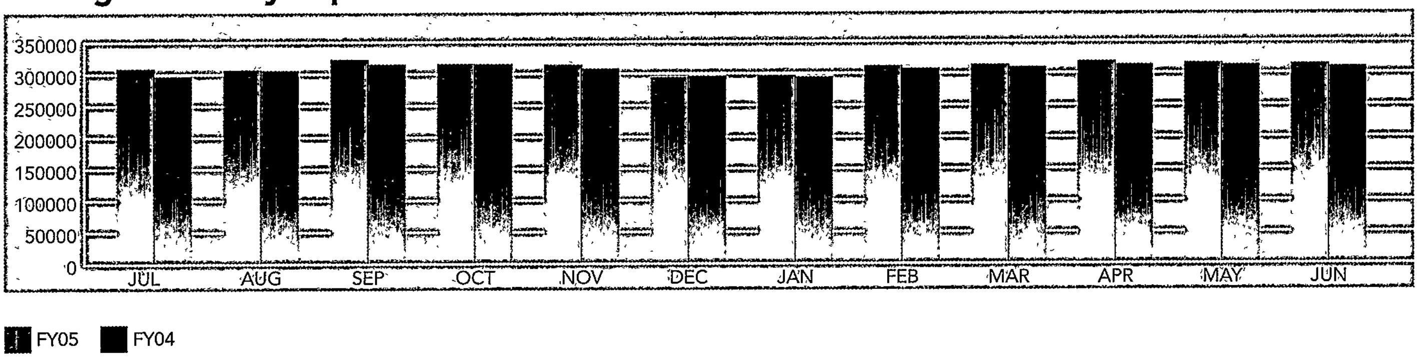
	2005	2004
Rail Ridership		
Annual passenger trips	92,756,099.00	91,042,192.00
Average weekday trips	310,716.58	306,569.51
Average trip length	13.54	13.49
Annual passenger miles	1,255,540,963.80	1,228,433,264.37
Daily train on-time performance	91%	93%
System utilization	31%	29%
End-of-period ratios [1]:		
Peak patronage	57%	57%
Off-peak patronage	43%	43%
Operations		
Passenger accidents/million passenger trips	5.93	Data Not Available
Passenger crimes/million passenger trips	28.08	Data Not Available
Financial		
Net passenger revenue	$233,651,427	$220,391,194
Other operating revenue	$17,112,605	$15,478,739
Total operating revenue	$250,764,032	$235,869,933
Net operating expense, excluding depreciation	$419,499,394	$381,935,762
System farebox ratio: Net passenger revenue/net operating expense	56%	58%
System operating ratio: Total operating revenue/total operating expense	60%	62%
Net rail passenger revenue/passenger mile	$0.19	$0.18
Rail operating cost/passenger mile	32.3¢	29.9¢
Net average rail passenger fare including FastPass	$2.51	$2.42

Note. 1. Six hour peak period (three hours a.m. and three hours p.m.)

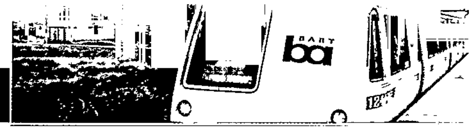
Daily Train On-Time Percent



Average Weekday Trips



BART Governance



- Established in 1957 by the California State Legislature.
- Authorized to plan, finance, construct, and operate a rapid transit system.
- Governed by the Board of Directors elected for four-year terms by voters in nine election districts within the counties of Alameda, Contra Costa and San Francisco.

BART Board of Directors — *Fiscal Year 2005*

Joel Keller	President — Antioch
Carole Ward Allen	Vice President — Oakland

Members of the Board

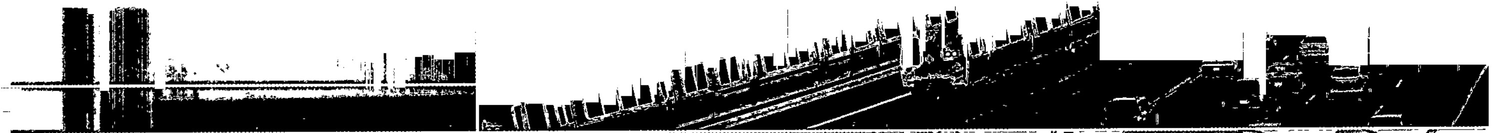
Gail Murray*	District 1	Orinda
Joel Keller	District 2	Antioch
Bob Franklin*	District 3	Berkeley
Carole Ward Allen	District 4	Oakland
Zoyd Luce*	District 5	Dublin
Thomas M. Blalock	District 6	Fremont
Lynette Sweet	District 7	San Francisco
James Fang	District 8	San Francisco
Tom Radulovich	District 9	San Francisco

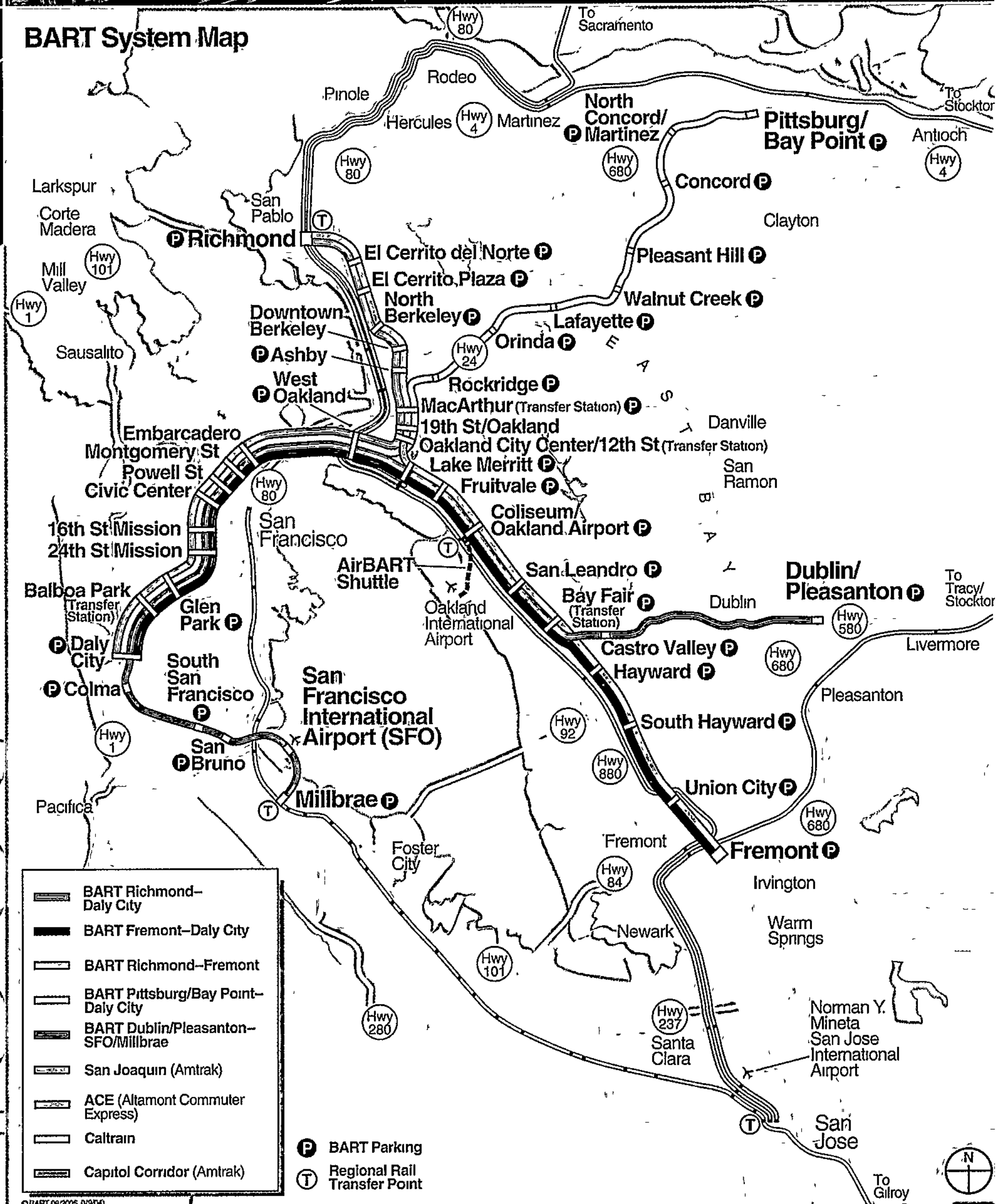
*elected on Nov. 2, 2004

Board Appointed Officers

Thomas E. Margro	General Manager
Sherwood Wakeman	General Counsel
Scott Schroeder	Controller/Treasurer
Ken Duron	District Secretary

The annual report is published by the District pursuant to Section 28770, Public Utilities Code of the State of California.

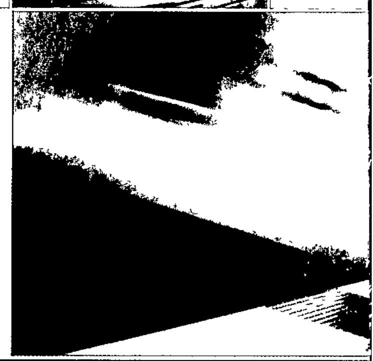




connect

BART

www.bart.gov



BART

San Francisco Bay Area Rapid Transit District (BART)
Headquarters in Oakland, California
P.O. Box 12688
Oakland, CA 94604-2688
510/464-6000