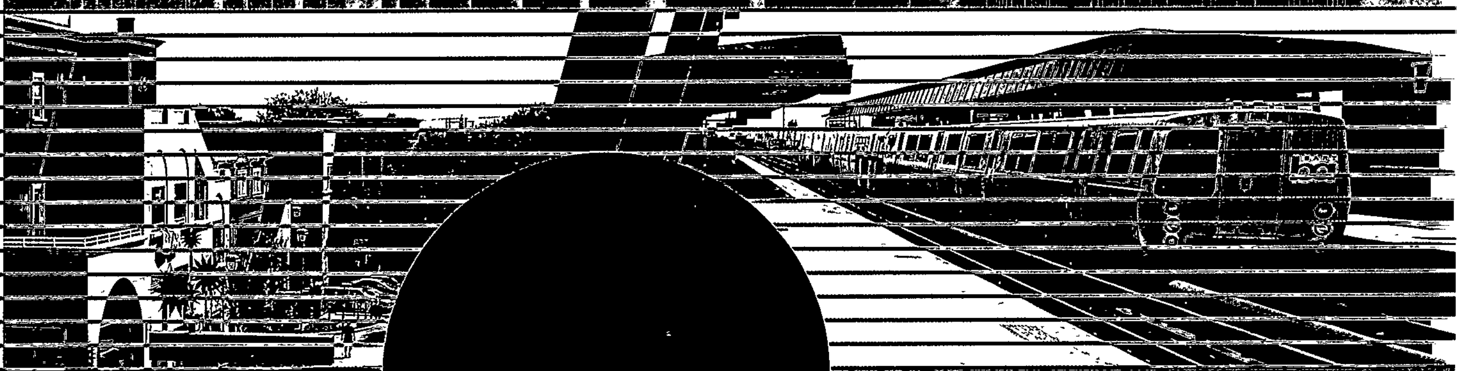
Another Bay Area Local Brings Home the GOLD



San Francisco Bay Area Rapid Transit District 2004 Annual Report

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2004 Annual Report

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Message from the General Manager Thomas E. Margro

BART Named Number One in America

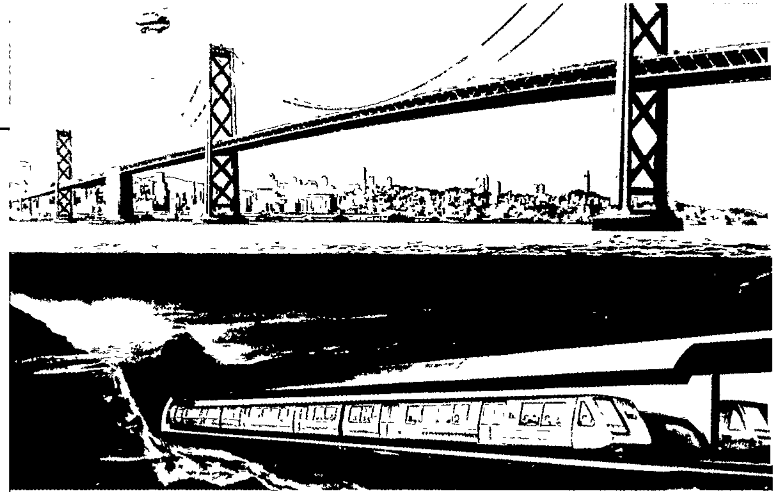
It is with great pride that I report that BART was named the "Number One" transit system in America by the America Public Transportation Association (APTA) for 2004/2005. This coveted distinction is awarded through a highly competitive process conducted each year by APTA in Washington, D.C. APTA represents 400 transit systems across the United States and Canada. The "Number One" designation recognized our excellence in customer service, in completion of the new San Francisco Airport line, our innovations in technology and sound fiscal management. Being named number one in America reflects one of the great hallmarks of BART: the ability of the District's employees to always look beyond the horizon, and to push the envelope to find improved ways to serve the public now and in the years ahead. So I salute the men and women of BART who, year in and year out, work to make the system among the best in the world.

A Banner Year

Despite the challenges of a less than fully recovered economy, fiscal year 2004 was a banner year for BART on several fronts. Like other transit properties, we had to do some further belt tightening and implement a ten percent fare increase in January to balance the budget. It was the second fare increase put into effect during an almost eight year span. Overall, these measures proved successful as we ended the year with a modest savings while maintaining high quality service with a full complement of trains at optimal frequency levels. We also continued to maintain our ten-year record of keeping rail cost per passenger mile below the inflation rate. This was coupled with a strong rail farebox recovery of 62.1 percent, the highest in the Bay Area and, in fact, among the highest in the nation for rail transit operators.

System renovation completed early

As BART entered its 32nd year of service to the people of the Bay Area in September 2003, we completed the District's 10-year system-wide renovation program on time and on budget. The renovation of BART, the one time "baby" of the transit industry in this country, was a monumental endeavor that was carried out with minimal impact on the system's more than 300,000 daily riders. This $1.2 billion comprehensive program translated into significantly improved reliability on numerous system support facilities and equipment, such as escalators, elevators, fare equipment, and rail transit cars. These improvements have benefited customers throughout the system, as reflected in the most recent customer satisfaction survey in which nearly 9 out of 10 riders said they were satisfied with BART service. Additionally, we realized budget savings resulting from the renovation program through operational efficiencies that reduced maintenance costs. The savings were factored into our fiscal year 2004 operating budget, which also helped us to achieve a balanced budget.



Of paramount importance this past year has been our commitment to maintain a strong focus on preparing for BART's Earthquake Safety Program.

BART's San Francisco Airport Extension

On June 22nd 2004, we marked the first year anniversary of BART's service to the San Francisco International Airport. The new line serves the northern San Mateo County peninsula with five stations: Colma, South San Francisco, San Bruno, the Airport Station and the southern terminus at Millbrae. During its first year of service, the 8.7-mile line, plus the Colma station, generated a total of almost 8 million passenger trips. This brought the system's total ridership for the year to over 91 million, about a five percent increase over the previous year. It is worth noting that for the same time frame approximately 224,000 customers transferred between BART and Caltrain at the Millbrae Station.

Earthquake Safety

Of paramount importance this past year has been our commitment to maintain a strong focus on preparing for BART's Earthquake Safety Program. This program will strengthen key portions of the system, including the Transbay Tube, the heart of the system. Overall, we must bring BART infrastructure up to the highest possible standards to ensure that trains will keep moving after the next big earthquake. Without question, BART's Earthquake Safety Program will be one of the most critical endeavors undertaken by the transit district over the next ten years. During the 2004 fiscal year we completed bay soil analysis, sought and received bids for preliminary work for the transbay tube, and completed preliminary engineering for portions of the system's infrastructure. During the early morning hours of April 16, we conducted a special media tour of the Transbay Tube, not only to get a first hand look at the structure, but to hear world renowned experts in seismic engineering discuss the need for the system's Earthquake Safety Program. This year the Earthquake Safety Program received a boost from the passage of Regional Measure 2, which included the earthquake strengthening of the Transbay Tube among several regional projects. BART will receive $143 million from the proceeds, which will go toward increasing the Tube's seismic resilience, at a cost exceeding $300 million.

In June of 2004 the BART Board of Directors placed a $980 million general obligation bond measure on the November ballot. The passage of Measure AA, which will be guaranteed by property taxes in the three BART counties, (Alameda, Contra Costa, and San Francisco.) will provide proceeds to fund major portions of the overall Earthquake Safety Program.

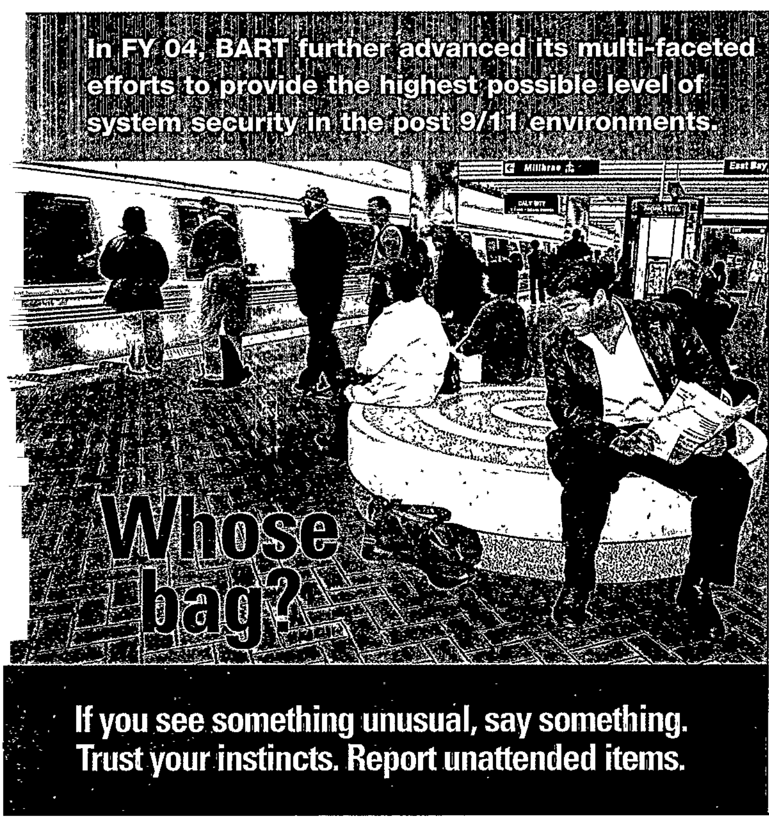
Underscoring the need to upgrade the BART infrastructure are two primary factors: First, seismologists have predicted a 62 percent chance that the Bay Area will be hit by at least one magnitude 6.7 or greater earthquake in the next 30 years. Second, several years of study and analysis by BART engineers and outside experts, following Loma Prieta, concluded that there was a need for strengthening the system's vital structures. Without such a program the system is vulnerable and could be out of service for an extended period of time following a major quake. This would be disastrous for the Bay Area, impacting everything from mobility to the economic health of the region.

System Security

In FY 04, BART further advanced its multi-faceted efforts to provide the highest possible level of system security in the post 9/11 environment. Since 9/11 we have been in a heightened state of alert, keeping security foremost in the minds of all of BART's 3,300 employees, as well as the system's daily users. The foundation of BART's security efforts has been a strong partnership between the system's Police Department and various Operating Departments. This past year we continued to enhance our protection of the system and its support facilities through the introduction of additional surveillance technology, enhanced deployment of BART police during high alert periods designated by the FBI and the Department of Homeland Security, and launched a newly updated information campaign, which we called our "Eyes & Ears" anti-terrorism awareness campaign. The goal of this campaign, first introduced in August 2002 and revamped in May 2004, is to enlist our riders as our partners in helping to keep BART safe. The most important contribution the system's riders can make is to report anything that appears suspicious, such as unattended packages left behind in stations or on trains. After the bombings of trains in Madrid, Spain on March 11, 2004, we reviewed and updated our procedures for handling unattended packages left on trains. As an extra step to safeguard the system, we continued a long list of precautions, which included keeping restrooms in the subway stations closed, removing all trash and recycling bins from subway platform levels, and installing alarms at critical access points. We also conducted several drills in conjunction with other emergency response agencies during the year. BART's security-related efforts have been cited among "best industry practices" by a number of outside experts who have assessed the security of the BART system. Within the framework of open, easily accessible public transportation, BART will continue its efforts to make the system safe and secure.

Oakland Airport Connector

Progress on the Oakland Airport Connector continued during the year. By the end of the report period, June 30 2004, preliminary engineering for the Connector project had almost been completed. This is the next major step in the evolution of this planned link with BART's Coliseum/Airport Station in Oakland. Five prequalified bidders identified during the year, are ready for the next step in the procurement process. During the next phase of the project BART will issue a Request for Proposal (RFP) to design and build the Connector only to those prequalified contractors. When completed, this will be an Automated Guideway Transit (AGT) system. The automated system will be constructed for the most part along the Hegenberger Road median and serve the two current terminals. However, it will be designed to serve a potential third terminal that is currently being planned. The distance between the BART Coliseum Station and the terminals is approximately three miles and will take about eight minutes for the trip. It's been estimated that by the year 2020 the Connector will carry over 13,500 passengers daily. The Connector will also be the linchpin in converting the Coliseum BART station into a transportation hub for the area. Construction of the new Amtrak/Capitol Corridor Intermodal Station across San Leandro Boulevard is underway, and a major development project is planned for the area, which will include both commercial space and affordable housing.



Warm Springs Extension

Work has also continued on the long planned Warm Springs Extension, which will take BART almost six miles south of its current southern Alameda terminus in Fremont to a new terminus at Warm Springs. During the fiscal year, preparation of the design/build procurement documents began under the guidance of the project team. Also, additional refinements to the final alignment of the line continued. The Alameda County Transportation Improvement Authority (ACTIA) has allocated $38 million to be earmarked for the initial purchase of two needed parcels, which were threatened by potential development. Working closely with both BART and the city of Fremont, the General Engineering Consultant continued coordination on that portion of the project involving the Paseo Padre Parkway and Washington Boulevard grade separation. The cost of the grade separation will be borne by Fremont. The project calls for the line to go under Lake Elizabeth to preserve the esthetic quality and environment of the lake and park area.

East Contra Costa County

With the passage of Regional Measure 2 and the Measure J sales tax in Contra Costa County this past year, eBART got a $246 million boost, a significant step toward bringing this service closer to reality. Using lightweight, self-propelled diesel multiple-unit vehicles

(DMUs), which look similar to light rail trains, the proposed plan calls for operating 23 miles between the Pittsburg/Bay Point Station and Byron using the old Mococo railroad line. Customers using the line would be able to transfer to BART at or near the Pittsburg/Bay Point Station. While additional funding is sought, BART planners continue to work with community leaders to ensure that the line's potential ridership level meets the requirement of BART's System Expansion Policy. One strategy is to encourage higher density development around the eBART stations; another is to provide optimum customer access.

Over 306,000 patrons ride the BART system on a given weekday.

580 Corridor Study

The proposed line along the Interstate 580 (I-580) corridor to serve Livermore continues to be on the radar screen for future development. BART had been considering two alignment options and several transit technologies to provide better transit to the Tri-Valley. In May 2004, elected officials in the corridor recommended preserving the freeway median for a future BART extension and dropping the downtown Livermore DMU alternatives. The policymakers decided that interim investments in the corridor should be focused on creation of a High-Occupancy Vehicle (HOV) lane network, with consideration of express bus. Long-term investment strategies include preserving rail right-of-way, and planning for a future BART extension. BART staff is currently working with staff from the Livermore-Amador Valley Transit Authority (LAVTA), the local bus operator, to refine interim bus options for the corridor.

Jack London BART Feasibility Study

In 2004, BART worked closely with the City of Oakland and Port of Oakland to develop several concepts for improving transit connectivity from BART to the Jack London District at Oakland's waterfront. Alternatives analyzed included an "infill" BART station on the existing alignment, a new underground BART shuttle, a streetcar and a signature bus. The policy committee expressed initial preferences for the underground BART shuttle, the streetcar and bus options. The underground BART shuttle concept will be explored in more detail along with the City of Alameda. The policy committee expressed interest in surface transit alternatives and advised staff to continue to refine and explore these options, including a review of alternate downtown alignments. The study will be completed by mid-fiscal year 2005.

Joint Development

Encouraging transit-oriented development has been an ongoing BART objective, long before the concept of "Smart Growth" took on national prominence. Such development on and around BART Stations is good land management. Putting people and transportation together helps build ridership and maintain open space. Under our Real Estate Department, staff has been working for years with local communities and developers to achieve this objective. As a result of BART's efforts with developers and local jurisdictions, projects in Castro Valley, Richmond and Hayward have been built. Earlier this year we saw the Fruitvale Village celebrate its grand opening. The Fruitvale Village is integral to the BART Fruitvale Station and I believe will prove to be a model for similar comprehensive developments elsewhere in the country. The $100 million Fruitvale Village, with over 255,000 square feet of mixed-use development, represents the state-of-the-art in Transit-Oriented Development. Our Joint Development staff is also working with Contra Costa County and the cities of Dublin, Pleasanton, Oakland, Walnut Creek, South San Francisco and Millbrae on potential developments around the BART stations that serve those communities.

Customer Access

More than 306,000 customers ride the BART system on a given weekday and getting them to and from the stations continues to be a major challenge. To meet the demands for access, we employ a variety of strategies. BART provides financial assistance to local transit agencies to provide feeder bus service to and from the BART stations. For those wishing to ride their bicycles, BART provides a variety of bike parking options, including bike racks, bike lockers and secured, attended bike parking.

BART also manages almost 47,000 parking spaces, which are located at 32 of its 43 stations in four counties. Over 10.5 million vehicles are parked in BART facilities annually. During Fiscal Year 2004 we made several modifications to our overall parking program, designed to make it as customer friendly as possible. We increased the availability of long term parking from the original three designated stations to most East Bay BART stations and reduced the price from $7.00 a day to $5.00 a day. The program change also included allowing reservations to be made on-line. The monthly reserve program now has over 4,300 subscribers and has proven to be a popular option to BART patrons. Additionally, we temporarily suspended the daily parking charges at new airport line stations in San Mateo County to spur ridership growth. As we look down the road to the year 2020 and beyond, the challenge of providing easy, convenient customer access to the system becomes even more daunting. BART could be carrying over 400,000 riders each weekday by then and getting people from their homes onto the system will be a critical factor. Listening to our patrons and providing a wide variety of access modes and strategies will be critical to accommodate the demands of new and future riders. Integration of the new TransLink smart card is one way that smart technology will be used to enhance access to BART, and TransLink is expected to be implemented in little more than a year.

Capitol Corridor Continues to Flourish

A major success story is the Capitol Corridor. It continued on a growth path, with ridership reaching 1.15 million during the 2004 fiscal year. That's about a 2.4 percent increase over the previous fiscal year. In fact it was the highest ridership year in the line's history. When BART, under the Capitol Corridor Joint Powers Authority, took over the management of the Capitol Corridor intercity service in 1998, it was our goal to grow the ridership, which was then running around 460,000 annually. The strategy was a simple two-pronged approach — increase service levels, and back that with a strong marketing effort. The result is that by the end of this past fiscal year we had seen a 150 percent increase in ridership since. Of course, we are very pleased with this tremendous success. When the new Amtrak/Capitol Corridor Station across from BART's Coliseum Station is finished, scheduled for the spring of 2005, BART will have two direct connections to the Capitol Corridor Trains. Capitol Trains already have a direct, cross-platform connection with BART at its Richmond Station. Marketing the expanded service has been a key factor in helping grow Capitol Corridor Train ridership. Providing direct on-line information about services and special promotions through CC Rail Mail has also been an effective marketing element. Additionally, the trial ride program has been offering discounts and coupons, coupled with special destination packages that have proven to be great ridership incentives. A cadre of loyal riders has also taken advantage of our Rider Appreciation Events, which have included onboard massages, free refreshments and even prizes. What's next for the Capitol Corridor? More service in the future.

Office Consolidation

A long time goal of the District has been to consolidate BART staff members under one roof, rather than have them scattered in different leased spaces around Oakland. During fiscal year 2004, we moved all of the administrative staff from BART's Lake Merritt headquarters to newly leased space in the Kaiser Center building, located at 300 Lakeside Drive. As leases expired we also moved staff from other buildings into the Kaiser Building. Overall, the move involved transferring about 500 people, including capital program personnel, into 8 floors, a total of almost 200,000 square feet, at 300 Lakeside. The new space has been leased for 10 years with two five-year options to extend from Summit Commercial Partners, owner of the complex. Operations and our engineering personnel, which remained at the Lake Merritt location, are expected to move to the Kaiser Center building in the spring of 2005. Having the administrative staff under one roof not only makes for a more efficient operation, but yields a savings on the numerous leased spaces.

Overview

In the final analysis 2004 was a watershed year in terms of completing and/or moving forward with major endeavors, always with an eye to the long term, while at the same time providing system riders the best and most economical service possible, day to day. We of course will continue along that path. And being named the NUMBER ONE transit system in America this year was simply icing on the cake.

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To the Board of Directors of San Francisco

Bay Area Rapid Transit District

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of San Francisco Bay Area Rapid Transit District (the "District") at June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 2, the accompanying 2003 financial statements have been restated.

Management's Discussion and Analysis on pages 7 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

December 8, 2004

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, 2004 and 2003. 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.

In 2003, the District substantially completed the construction of the system extension to the San Francisco International Airport. The new extension added 10 track miles and 4 stations to the existing system. The San Francisco International Airport Extension started its revenue operations on June 22, 2003.

The Financial Statements

The District's basic financial statements include the (1) *Statement of Net Assets,* (2) *Statement of Revenues, Expenses and Changes in Net Assets,* and (3) *Statement of Cash Flows.* 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.

Certain amounts in the 2003 financial statements were restated to record demutualization revenue received by the District from the Principal Financial Group in December 2001, to reverse the accrual of postemployment benefits in prior years, and to reclassify certain assets and liabilities as current or noncurrent and/or restricted and unrestricted. The adjustments are fully discussed in Note 2 to the financial statements.

Overview of the 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 cash flows to operating income/loss.

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 2004, 2003 and 2002 is as follows:

(in thousands of dollars)	2004	2003 As restated	2002 As restated
Operating revenues	$ 234,546	$ 205,104	$ 207,608
Operating expenses	(498,503)	(442,936)	(432,656)
Operating loss	(263,957)	(237,832)	(225,048)
Nonoperating revenues	162,178	185,617	205,437
Capital contributions	75,010	130,193	235,825
(Decrease) increase in net assets	$ (26,769)	$ 77,978	$ 216,214

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.

The operating expenses increased by $55,567,000 in fiscal year 2004, which is mostly accounted for as 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.

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 the San Mateo County Transit District 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.

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. 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.

The decrease in operating revenues of $2,504,000 in fiscal year 2003 was due to a 5% drop in average weekday ridership from 310,725 in 2002 to 295,158 in 2003. The increase in operating expenses of $10,280,000 was mainly due to the increase in depreciation expense, which is a non-cash transaction. Excluding depreciation expense, the operating expenses for fiscal year 2003 showed a very slight increase of $898,000 over fiscal year 2002, which was made possible through aggressive cost control measures, efficiencies and one-time savings adopted by the District throughout the year. The revenues from capital contributions in fiscal year 2003 amount to $130,193,000 as compared to $235,825,000 in 2002, which was a decrease of $105,632,000. The decrease was due to less eligible capital costs incurred in 2003 because of the winding down to completion of the SFO Extension and the A&B Car Rehabilitation projects.

Statements of Net Assets

A comparison of the District's *Statements of Net Assets* as of June 30, 2004, 2003 and 2002 is as follows:

(in thousands of dollars)	2004	2003 As restated	2002 As restated
Current assets	$ 425,715	$ 438,877	$ 573,195
Noncurrent assets – capital assets, net	5,009,777	4,999,477	4,817,029
Noncurrent assets – other	703,622	767,280	793,630
Total assets	$ 6,139,114	$ 6,205,634	$ 6,183,854
Current liabilities	$ 300,865	$ 299,560	$ 311,282
Noncurrent liabilities	1,440,516	1,481,572	1,526,048
Total liabilities	$ 1,741,381	$ 1,781,132	$ 1,837,330
Net assets			
Invested in capital assets, net of debt	$ 3,884,807	$ 3,869,281	$ 3,715,588
Restricted net assets	357,343	371,215	461,611
Unrestricted net assets	155,583	184,006	169,325
Total net assets	$ 4,397,733	$ 4,424,502	$ 4,346,524

Capital Assets

As of the end of fiscal year 2004, the District's capital assets, before accumulated depreciation, increased by $112,252,000. The major additions in 2004 included capital expenditures for acquisitions and major improvements on the core system and extensions ($81,374,000), train control equipment ($6,363,000), revenue cars ($13,360,000), and automatic fare collection equipment ($24,503,000).

As of the end of fiscal year 2003, the District's capital assets, before accumulated depreciation, increased by $274,678,000. The major additions in 2003 included capital expenditures for the San Francisco International Airport Extension project ($122,909,000), system wide construction ($31,916,000), revenue car modification and rehabilitation ($46,552,000) and the automatic fare collection equipment ($21,764,000).

Details of the capital assets, net of accumulated depreciation, as of June 30, 2004, 2003 and 2002 are as follows:

(in thousands of dollars)	2004	2003	2002
Land	$ 481,466	$ 476,202	$ 245,835
Stations, track, structures and improvements	2,555,907	2,518,050	1,439,955
Buildings	22,409	22,058	22,346
Revenue transit vehicles	628,460	669,801	699,753
Other	288,625	301,445	240,034
Construction in progress	1,032,910	1,011,921	2,169,106
	$5,009,777	$4,999,477	$4,817,029

Long-Term Debt

The outstanding balance of long-term debt showed a decrease of $40,687,000 and $7,813,000 at the end of fiscal years 2004 and 2003, respectively. Below is a summary of long-term debt as of June 30, 2004, 2003 and 2002 (including current portion but excluding unamortized balance of debt issue costs and bond premium/discounts):

(in thousands of dollars)	2004	2003	2002
Bonds payable from and collateralized by a pledge of sales tax revenues	$ 732,365	$ 748,802	$ 762,501
Bonds payable from and collateralized by the Federal Full Funding Grant Agreement for the SFO Extension	347,540	368,035	426,655
Notes payable from bridge toll revenues	38,355	46,035	53,355
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	27,325	19,645	12,325
Lease/leaseback obligation, including option price, for rail traffic control equipment	190,652	194,407	186,616
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	–
	$1,481,452	$1,522,139	$1,529,952

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 $28,000,000 in fiscal year 2004 and $17,000,000 in fiscal year 2003.

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.

Addition to Long-Term Debt in Fiscal Year 2003

On October 1, 2002, ABAG issued BART SFO Extension Bonds (Airport Premium Fare), 2002 Series A, in the amount of $56,715,000. The proceeds are used to finance a portion of the costs of the SFO Extension project. The bonds are payable solely from the premium fare imposed on passengers who board or depart the District's rapid transit system at the San Francisco International Airport Station. The bonds were given ratings of AAA, Aaa and AAA by three national rating agencies.

Statements of Cash Flows/Cash, Cash Equivalents and Investments

A comparative presentation of the major sources and uses of cash for 2004, 2003 and 2002 is as follows:

(in thousands of dollars)	2004	2003	2002
Net cash used by operating activities	$(148,899)	$(132,666)	$(123,383)
Net cash provided by noncapital financing activities	152,417	130,470	136,992
Net cash used by capital and related financing activities	(65,687)	(132,045)	(189,485)
Net cash provided (used) by investing activities	10,157	(15,009)	79,136
Net decrease in cash and cash equivalents	(52,012)	(149,250)	(96,740)
Cash and cash equivalents, beginning of year	282,763	432,013	528,753
Cash and cash equivalents, end of year	230,751	282,763	432,013
Investments, end of year	356,440	360,475	324,637
Cash, cash equivalents and investments, end of year	$ 587,191	$ 643,238	$ 756,650

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.

The total cash, cash equivalents and investments held by the District and trustee banks at the end of fiscal year 2003 amounted to $643,238,000 which is a decrease of $113,412,000 compared to the balance of $756,650,000 on June 30, 2002. The decrease in cash and investments is mainly attributed to capital expenditures during the year amounting to $301,714,000 reduced by reimbursements received from federal, state and other local grants of $187,328,000 or a net disbursement for capital projects of $114,386,000.

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 San Francisco Bay Area Rapid Transit 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.

Financial Statements

Statements of Net Assets — *For the years ended June 30, 2004 and 2003*

(in thousands of dollars)	2004	2003 (Restated — Note 2)
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalent	$ 135,744	$ 86,185
Investments	80,717	115,225
Capital grants receivable	28,320	59,232
Other receivables	24,938	19,067
Current portion of capital lease receivable	3,154	3,154
Materials and supplies	25,692	25,514
Total unrestricted current assets	298,565	308,377
Restricted assets		
Cash and cash equivalents	95,007	91,381
Investments	32,143	39,119
Total restricted current assets	127,150	130,500
Total current assets	425,715	438,877
Noncurrent assets		
Capital assets: Facilities, property and equipment, net	5,009,777	4,999,477
Unrestricted assets		
Investments	53,745	69,469
Deferred charges	515	994
Long-term portion of capital lease receivable	17,350	20,504
Other assets	1,189	1,436
Restricted assets		
Cash and cash equivalents	–	105,197
Investments	189,835	136,662
Capital grants receivable	277,503	270,896
Other receivables	17,432	16,069
Deposits for sublease obligation	146,053	146,053
Total noncurrent assets	5,713,399	5,766,757
Total assets	6,139,114	6,205,634
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and other liabilities	185,517	174,685
Current portion of long-term debt	93,631	100,442
Self-insurance liabilities	10,155	12,681
Deferred revenue	8,408	8,598
Capital lease liability	3,154	3,154
Total current liabilities	300,865	299,560
Noncurrent liabilities		
Long-term debt, net of current portion	1,372,429	1,408,507
Self-insurance liabilities	16,852	16,344
Deferred revenue	31,261	33,534
Capital lease liability	17,350	20,504
Other noncurrent liabilities	2,624	2,683
Total noncurrent liabilities	1,440,516	1,481,572
Total liabilities	1,741,381	1,781,132
Commitments and contingencies (Notes 4 and 16).		
Net assets		
Invested in capital assets, net of related debt	3,884,807	3,869,281
Restricted net assets		
For debt service and other liabilities	333,745	371,215
For retiree health benefits	23,598	–
Unrestricted net assets	155,583	184,006
Total net assets	$ 4,397,733	$ 4,424,502

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

Statements of Revenues, Expenses and Changes in Fund Net Assets — *For the years ended June 30, 2004 and 2003*

(in thousands of dollars)	2004	2003 (Restated — Note 2)
Operating revenues		
Fares	$ 220,391	$ 191,386
Other	14,155	13,718
Total operating revenues	234,546	205,104
Operating expenses		
Transportation	121,257	105,155
Maintenance	145,683	135,938
Police services	31,080	28,135
Construction and engineering	15,824	16,654
General and administrative	102,849	94,900
Depreciation	116,568	103,669
Total operating expenses	533,261	484,451
Less — capitalized costs	(34,758)	(41,515)
Net operating expenses	498,503	442,936
Operating loss	(263,957)	(237,832)
Nonoperating revenues (expenses)		
Transactions and use tax (sales tax)	170,566	167,441
Property tax	21,372	20,253
State and local financial assistance	19,875	2,419
Investment income	22,940	36,276
Interest expense	(72,167)	(40,502)
Other expense, net	(408)	(270)
Total nonoperating revenues, net	162,178	185,617
Loss before capital contributions	(101,779)	(52,215)
Capital contributions		
Grants restricted for capital expenditures (Note 1)	75,010	130,193
Net assets		
(Decrease) increase in net assets	(26,769)	77,978
Total net assets, beginning of year, as restated (Note 2)	4,424,502	4,346,524
Total net assets, end of year	$ 4,397,733	$ 4,424,502

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

Statements of Cash Flows — *For the years ended June 30, 2004 and 2003*

(in thousands of dollars)	2004	2003
Cash flows from operating activities		
Receipts from customers	$ 220,258	$ 192,532
Payments to suppliers	(108,404)	(95,670)
Payments to employees	(273,854)	(241,657)
Other operating cash receipts	13,101	12,129
Net cash used by operating activities	(148,899)	(132,666)
Cash flows from noncapital financing activities		
Transactions and use tax (sales tax) received	111,200	108,223
Property tax received	22,150	19,606
Financial assistance received	19,067	2,641
Net cash provided by noncapital financing activities	152,417	130,470
Cash flows from capital and related financing activities		
Transactions and use tax (sales tax) received	59,366	59,218
Capital grants received	103,385	187,328
Proceeds from issuance of 2002 SFO Extension Premium Fare Bonds	–	56,715
Proceeds from issuance of 2004 SFO Extension Refunding Bonds	66,000	–
Proceeds from construction loans	10,000	10,000
Expenditures for facilities, property and equipment	(128,403)	(301,714)
Principal paid on long-term debt	(114,328)	(80,830)
Payments of long term debt issuance and service costs	(2,248)	(2,630)
Premium received from issuance of long term debt	–	1,136
Interest paid on long term debt	(60,148)	(61,650)
Principal payments received from installment receivable	689	382
Net cash used by capital and related financing activities	(65,687)	(132,045)
Cash flows from investing activities		
Proceeds from sale and maturity of investments	234,870	230,933
Purchase of investments	(230,834)	(262,166)
Investment income	6,121	16,224
Net cash provided (used) by investing activities	10,157	(15,009)
Net decrease in cash and cash equivalents	(52,012)	(149,250)
Cash and cash equivalents, beginning of year	282,763	432,013
Cash and cash equivalents, end of year	$ 230,751	$ 282,763
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (263,957)	$ (237,832)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	116,568	103,669
Amortization of deferred charges	126	135
Net effect of changes in		
Decrease in other receivables	(7,867)	(4,033)
Increase in materials and supplies	(178)	(803)
Increase in accounts payable and other liabilities	8,703	5,349
(Increase) decrease in self-insurance liabilities	(2,018)	1,105
Decrease in deferred revenue	(276)	(256)
Net cash used by operating activities	$ (148,899)	$ (132,666)
Noncash transactions		
Capital assets acquired with a liability at year end	$ 40,020	$ 44,243
Lease/leaseback obligation additions	10,847	10,782
Lease/leaseback obligation amortization	14,114	5,531

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

Notes to Financial Statements

June 30, 2004 and 2003

1. Description of Reporting Entity and 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 disbursements 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 6).

Basis of Accounting and Presentation

The District is accounted for as a Proprietary Fund, as defined by GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments,* and its financial statements are presented on the accrual basis of accounting and using the economic resources measurement focus. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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 not to apply FASB Statements and Interpretations issued after November 30, 1989, due to the nature of the District's operations.

Grants Restricted for Capital Expenditures

The District receives grants from the Federal Transit Administration ("FTA") and other agencies of the U.S. Department of Transportation, state, and local transportation funds for the acquisition of transit-related equipment and improvements. 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 change in net assets resulting in an increase in net revenue of $75,010,000 and $130,193,000 for the fiscal years 2004 and 2003, respectively. Capital grants receivable represent amounts expected from governmental agencies to reimburse the District for costs incurred for capital projects (see Note 9).

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, retiree health benefits, and certain long-term liabilities. 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.

Cash Equivalents

The District considers all money market funds and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at fair value, which is based on 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 *Statements of Net Assets* because, as noted above, their use is subject to externally imposed stipulations, either by certain bond covenants, laws or regulations or provisions of debt agreements. Assets that are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated for the liquidation of long-term debts are classified as restricted noncurrent assets regardless of the liquidity of the asset itself.

Materials and Supplies

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

Facilities, Property and Equipment

Facilities, property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 80 years.

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

The District capitalizes certain interest income and expense related to tax-free borrowings 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 in the amount of $2,308,000 and $30,193,000 was capitalized during the years ended June 30, 2004 and 2003, respectively.

Compensated Absences

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

Fare Operating Revenues

Fare operating revenues are earned as passengers utilize the train service. Deferred revenue includes an estimate of passenger tickets purchased which have not yet been used as well as 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.

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 a portion which is paid directly to the 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. San Francisco, Alameda and Contra Costa Counties assess properties and bill for, collect, and distribute property taxes. Property taxes are recorded as revenue in the fiscal year of levy.

State and Local Financial Assistance

Financial assistance grants 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).

Capitalized Costs

The District initially charges employee salaries, wages and benefits to operating expenses. 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.

Collective Bargaining

Approximately 87% of the District's employees are subject to collective bargaining. The current labor contracts expire on June 30, 2005.

Revisions and Reclassifications

Certain revisions and reclassifications to cash flows from capital and related financing activities and from investing activities within the prior year statement of cash flows were made. These revisions and reclassifications had no impact on the overall change in cash and cash equivalents.

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.

New Accounting Pronouncements

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures,* effective for the District's fiscal year beginning July 1, 2004. Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. The statement will have no effect on the District's net assets or changes in net assets.

In November 2003, the GASB issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries,* effective for the District's fiscal year beginning July 1, 2005. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss on capital assets should be recorded and that any insurance recoveries be netted with the impairment loss. The District is currently evaluating the effect that Statement No. 42 will have on its financial statements.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* effective for the District's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based and actuarially calculated measurement, recognition and disclosure of other postemployment benefits ("OPEB") expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. The District has not determined the effect that Statement No. 45 will have on its financial statements. As more fully described in Note 12, in anticipation of Statement No. 45 implementation, the District created a Retiree Health Benefit Trust (the "Trust") in fiscal 2004.

2. Restatement of Previously Issued Financial Statements

Certain amounts in the 2003 financial statements were restated to record demutualization revenue received by the District from the Principal Financial Group in December 2001, to reverse the accrual of postemployment benefits in prior years, and to reclassify certain assets and liabilities as current or noncurrent and/or restricted and unrestricted.

The District provides certain health and welfare benefits to employees and certain other individuals. The District contracted with Principal Life Insurance Company ("Principal Life"), formerly Bankers Life, in January 1979 to provide long-term disability insurance, life insurance, and accidental death and dismemberment insurance benefits. The District has continued to contract with Principal Life for one or more insured products from 1979 to the present. As a policyholder of Principal Life, the District was also a member of its parent company, the Principal Mutual Holding Company ("Principal Mutual"). As a member of Principal Mutual, the District had certain rights including the right to participate in the distribution of any residual value in the event of a liquidation of the company. In October 2001, Principal Mutual converted from a mutual insurance holding company into a stock company in a process called a demutualization. Upon demutualization, the membership interests of Principal Life's policyholders in Principal Mutual were extinguished, and eligible policyholders received compensation in exchange for the extinguishment of their membership interests. In December 2001, the District received compensation in the form of shares of common stock from the new stock corporation, the Principal Financial Group. However, receipt and ownership of these shares was not reflected in the fiscal 2002 financial statements as revenue and investments.

Upon issuance of the shares resulting from the demutualization, the Principal Financial Group placed the shares in a custodial account on behalf of the District where they remained until all shares were sold in March 2004. In June 2004, the District transferred all the demutualization-related cash received in fiscal year 2004 to a Trust established solely to provide funds for retiree health benefits. (See Note 12 for a detailed discussion of the Trust.)

Additionally, in accordance with GASB guidance, the District historically accounted for the provision of post-employment benefits on a "pay-as-you-go" basis. Anticipating that at some point in the future the GASB would require recording the liability in the financial statements for such benefits on an accrual basis (the GASB had announced its intention to do so in 1988), the District accrued certain amounts, primarily during the 1990s, to provide for such benefits. Such accruals were not actuarially determined and were inconsistent with the District's "pay as you go" methodology and therefore needed to be reversed.

In accordance with Accounting Research Bulletin No. 43, the District reclassified certain restricted assets that were previously reported as current assets to noncurrent assets. Assets reclassified include those assets that are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated for the liquidation of long-term debts. Such assets are classified as restricted noncurrent assets regardless of the liquidity of the asset itself. In addition, certain other reclassifications of amounts were made within the statement of net assets.

As a result of these matters, certain amounts in the accompanying 2003 financial statements have been restated to reflect the District's financial statements in accordance with accounting principles generally accepted in the United States of America. The adjustments and reclassifications recorded had the following effects on the fiscal 2003 financial statements:

	As previously reported	Adjustments resulting from the demutualization	Other reclassifications and adjustments	As Restated
Statement of Net Assets — June 30, 2003				
Current assets				
Unrestricted assets				
Investments	$ 93,237	$21,988	$ –	$ 115,225
Other	189,998	–	3,154	193,152
Total unrestricted current assets	283,235	21,988	3,154	308,377
Restricted assets				
Cash and cash equivalents	196,578	–	(105,197)	91,381
Capital grants receivable	100,000	–	(100,000)	–
Other receivables	19,887	–	(19,887)	–
Other	42,273	–	(3,154)	39,119
Total restricted current assets	358,738		(228,238)	130,500
Total current assets	641,973	21,988	(225,084)	438,877
Noncurrent assets				
Capital assets	4,999,477	–	–	4,999,477
Unrestricted assets				
Long-term portion of capital lease receivable	–	–	20,504	20,504
Other	71,899			71,899
Restricted assets				
Cash and cash equivalents	–	–	105,197	105,197
Capital grants receivable	170,896	–	100,000	270,896
Long-term portion of capital lease receivable	20,504	–	(20,504)	–
Other receivables	142,235	–	(126,166)	16,069
Deposits for sublease obligation	–	–	146,053	146,053
Other	136,662	–	–	136,662
Total noncurrent assets	5,541,673		225,084	5,766,757
Total assets	6,183,646	21,988	–	6,205,634
Liabilities and Net Assets				
Liabilities				
Current liabilities				
Accounts payable and other liabilities	186,762	–	(12,077)	174,685
Other	124,875	–	–	124,875
Total current liabilities	311,637	–	(12,077)	299,560
Noncurrent liabilities	1,478,889	–	2,683	1,481,572
Total liabilities	1,790,526		(9,394)	1,781,132
Net assets				
Unrestricted	152,624	31,382	–	184,006
Other	4,240,496	–	–	4,240,496
	$4,393,120	$31,382	$ –	$4,424,502
Unrestricted net assets — July 1, 2002	$ 138,795	$21,136	$ 9,394	$ 169,325

3. Cash, Cash Equivalents and Investments

The District maintains a cash and investment pool that includes cash, cash equivalents and investments that are restricted due to externally imposed constraints, available for general use and designated by management for specific purposes.

Deposits

The carrying amount of the District's deposits with banks and cash on hand was $67,663,000 and $57,475,000 at June 30, 2004 and 2003, respectively. The corresponding bank balance was $65,828,000 and $55,004,000 at June 30, 2004 and 2003, respectively. Of the bank balance, $1,882,000 and $1,935,000 for 2004 and 2003, respectively, was insured by federal depository insurance or collateralized by securities held by the District's agent in the District's name, and $63,946,000 and $53,069,000 for 2004 and 2003, respectively, is required by Section 53652 of the California Government Code to be collateralized 110% by the pledging financial institutions. Such collateral is not required to be in the District's name.

Investments

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

The District's investments are categorized below to give an indication of the credit risk assumed by the District at June 30, 2004 and 2003. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. The District's investment pools are reported at fair value.

	2004			2003		
	Category (at Cost)		Fair Value	Category (at cost)		Fair Value
	1	2		1	2	
Money market	$ 5,000	$ 3,826	$ 8,826	$ –	$ 130,674	$ 130,674
U.S. Treasury securities	55,520	97,011	152,923	124,176	48,010	173,625
Federal agency obligations	130,161	35,915	165,466	101,381	48,043	150,513
Repurchase agreements	40,019	92,995	133,014	25,819	34,704	60,523
Local agency investment fund	20,000	3,688	23,688	3,627	–	3,627
Corporate obligations/shares	–	35,611	35,611	–	52,142	66,801
Total	$250,700	$269,046	519,528	$ 255,003	$ 313,573	585,763
Cash on hand			2,535			3,044
Time and demand deposits			65,128			54,431
Total			$ 587,191			$ 643,238

Cash, cash equivalents and investments are presented at fair value in the Statement of Net Assets as follows:

	2004			2003		
	Unrestricted	Restricted	Total	Unrestricted	Restricted (Restated Note 2)	Total
Current assets						
Cash and cash equivalents	$135,744	$ 95,007	$230,751	$ 86,185	$ 91,381	$177,566
Investments	80,717	32,143	112,860	115,225	39,119	154,344
Noncurrent assets						
Cash and cash equivalents	–	–	–	–	105,197	105,197
Investments	53,745	189,835	243,580	69,469	136,662	206,131
Total	$270,206	$316,985	$587,191	$270,879	$372,359	$643,238

4. Changes in Capital Assets

Facilities, property and equipment at June 30, 2004 and 2003 are summarized as follows:

(in thousands of dollars)	Lives (Years)	2003	Additions and Transfers	Retirements and Transfers	2004
Non Depreciated Assets					
Land		$ 476,202	$ 5,854	$ (590)	$ 481,466
Construction-in-progress		1,011,921	126,827	(105,838)	1,032,910
Total non depreciated assets		1,488,123	132,681	(106,428)	1,514,376
Depreciated Assets					
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 capital 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 depreciated assets		4,782,200	100,084	(14,085)	4,868,199
Less: accumulated depreciation		(1,270,846)	(116,568)	14,616	(1,372,798)
Depreciated assets net of accumulated depreciation		3,511,354	(16,484)	531	3,495,401
Total		$ 4,999,477	$ 116,197	$ (105,897)	$ 5,009,777

(in thousands of dollars)	Lives (Years)	2002	Additions and Transfers	Retirements and Transfers	2003
Non Depreciated Assets					
Land		$ 245,835	$ 230,898	$ (531)	$ 476,202
Construction-in-progress		2,169,106	306,347	(1,463,532)	1,011,921
Total non depreciated assets		2,414,941	537,245	(1,464,063)	1,488,123
Depreciated Assets					
Stations, track, structures and improvements	80	1,896,367	1,105,421	(555)	3,001,233
Buildings	80	26,587	45	–	26,632
System-wide operation and control	20	419,284	87,050	(4,139)	502,195
Revenue transit vehicles	30	1,008,773	21,524	(568)	1,029,729
Revenue transit vehicles under capital lease	30	55,593	–	–	55,593
Service and miscellaneous equipment	3–20	51,605	5,645	(4,986)	52,264
Capitalized construction and start-up costs	30	98,314	–	(9)	98,305
Repairable property items	30	24,181	–	(7,932)	16,249
Total depreciated assets		3,580,704	1,219,685	(18,189)	4,782,200
Less: accumulated depreciation		(1,178,616)	(103,669)	11,439	(1,270,846)
Depreciated assets net of accumulated depreciation		2,402,088	1,116,016	(6,750)	3,511,354
Total		$ 4,817,029	$ 1,653,261	$ (1,470,813)	$ 4,999,477

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 I, 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 $548,306,000 at June 30, 2004, ($678,180,000 in 2003).

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, 2004, including those paid from and/or incurred against the SFIA contribution, have been capitalized to fixed assets and accordingly are subject to depreciation. As of June 30, 2004, the fixed assets related to the SFIA contribution amounted to $60,227,000 with an accumulated depreciation of $894,000.

5. Risk Management

The District is partially self-insured for workers' compensation, public liability and property damage claims. Beginning July 2003, the self-insured maximum for workers' compensation was increased from $1,000,000 to $2,500,000. 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.

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. 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, 2004 is believed to be sufficient to cover any costs arising out of claims filed or to be filed for accidents which occurred through that date.

At June 30, 2004 and 2003, the amount of these liabilities was $27,007,000 and $29,025,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal year are as follows:

(in thousands of dollars)	2004	2003
Liabilities at beginning of year	$ 29,025	$ 27,920
Current year claims and changes in estimates	7,910	8,266
Payments of claims	(9,928)	(7,161)
Liabilities at end of year	27,007	29,025
Less current portion	(10,155)	(12,681)
Net noncurrent portion	$ 16,852	$ 16,344

6. Related Organizations and Projects

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:

(in thousands of dollars)	2004	2003
Authority's total assets		
Amount	$ 94,258	$ 93,602
As a percentage of District's total assets	1.5%	1.5%
Authority's total liabilities		
Amount	$ 94,258	$ 93,602
As a percentage of District's total liabilities	5.4%	5.3%
Authority's total net assets		
Amount	$ –	$ –

In order to fund a portion of the costs of 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, 2004, the notes outstanding amount to $38,355,000 with interest rates ranging from 4.90% to 5.75% and mature from August 2004 through February 2007. See Note 7.

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

Capitol Corridor Joint Powers Authority

The Joint Exercise of Powers Agreement (the "Capitol Corridor 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 the administration and operation commencing at the service on July 1, 1998. The initial term of the Interagency Agreement was for three years, from July 1, 1998 and was extended for three more years effective July 1, 2001. In 2004, State legislation was enacted that eliminated the sunset date of the Interagency Transfer Agreement.

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 $2,858,000 for marketing and administrative services in 2004 ($2,797,000 in 2003). The District is also reimbursed by Capitol Corridor 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 statement of revenues, expenses and changes in net assets. At June 30, 2004, unreimbursed expenses from Capitol Corridor amount to $10,062,000 ($6,066,000 on June 30, 2003). All unreimbursed expenses are included as current other receivables, 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, 2004 and 2003, the District had provided the Alliance with approximately $12,758,000 in cumulative in-kind contributions. In addition, the District incurred $26,200,000 and $21,528,000 of direct costs as of fiscal year 2004 and 2003, respectively, 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.

7. Long-Term Debt

Long-term debt at June 30, 2004 and 2003 is summarized as follows:

(in thousands of dollars)	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 (See Note 6)	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: premium/discounts	(13,190)	(2,086)	(116)	(15,392)
Long-term debt net of premium/discounts	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

(in thousands of dollars)	2002	Additions/ Accretion	Payments/ Defeasance and Amortization	2003
1990 Sales Tax Revenue Refunding Bonds	$ 55,616	$ 1,191	$ (9,485)	$ 47,322
1991 Sales Tax Revenue Bonds	2,465	–	(2,465)	–
1995 Sales Tax Revenue Bonds	53,980	–	(2,060)	51,920
1998 Sales Tax Revenue Bonds	346,845	–	(880)	345,965
1999 Sales Tax Revenue Bonds	134,945	–	–	134,945
2001 Sales Tax Revenue Bonds	168,650	–	–	168,650
TFA Bridge Toll Notes (See Note 6)	53,355	–	(7,320)	46,035
Construction Loans	100,825	7,320	–	108,145
FTA Capital Grant Bonds	426,655	–	(58,620)	368,035
Lease/Leaseback Obligation	186,616	13,322	(5,531)	194,407
2002 SFO Extension Premium Fare Bonds	–	56,715	–	56,715
	1,529,952	78,548	(86,361)	1,522,139
Less: premium/discounts	(11,746)	(2,219)	775	(13,190)
Long-term debt net of premium/discounts	1,518,206	$ 76,329	$ (85,586)	1,508,949
Less: current portion of long-term debt	(69,361)			(100,442)
Net long-term debt	$ 1,448,845			$ 1,408,507

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

1990 Sales Tax Revenue Refunding Bonds (the 1990 Bonds)

In July 1990, the District issued sales tax revenue refunding bonds totaling $158,478,000. The 1990 Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. At June 30, 2004, the 1990 Bonds consist of $28,775,000 of current interest serial bonds due from 2010 to 2011 with interest rate of 6.75% and $9,615,000 of capital appreciation serial bonds ($3,821,000 original amount) with a yield of 6.75% due in 2004. Interest on the capital appreciation bonds is payable at maturity. For financial reporting purposes, accrued interest is added to the principal balance.

1991 Sales Tax Revenue Bonds (the 1991 Bonds)

The 1991 Bonds were issued in August 1991 in the amount of $56,010,000 and are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. The final principal payment of $2,465,000 was made during fiscal year 2003. There were no bonds payable related to the 1991 Bonds at June 30, 2003 and 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 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 2001 Sales Tax Revenue Bonds to defease $18,585,000 of serial bonds due from 2002 to 2010 and $19,915,000 term bonds due from 2012 to 2015. At June 30, 2004, the 1995 Bonds consist of $19,440,000 serial bonds due from 2004 to 2011 with interest rates ranging from 5.1% to 5.7% and $30,360,000 of term bonds due from 2012 to 2020 with an interest rate of 5.5%. The District is required to make sinking fund payments on the term bonds beginning on July 1, 2012. In addition, the 1995 Bonds maturing after June 30, 2006 will be redeemable after July 1, 2005 at the option of the District at prices ranging from 100% to 101%.

1998 Sales Tax Revenue Bonds (the 1998 Bonds)

In March 1998, the District issued sales tax revenue bonds totaling $348,510,000 to provide funds for certain capital improvements, including rehabilitation of the District's vehicles and facilities, to repay 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 bonds are special obligations of the District payable from and collateralized by a pledge of sales tax revenues. At June 30, 2004, the 1998 Bonds consist of $152,680,000 serial bonds due from 2004 to 2018 with interest rates ranging from 4.0% to 5.50%, $79,105,000 of a term bond due July 1, 2023 with interest rate of 4.75% and $113,265,000 of a term bond due July 1, 2028 with interest rate of 5%. The District is required to make sinking fund payments on the term bond due July 1, 2023 beginning on July 1, 2019 and on the term bond due July 1, 2028 beginning on July 1, 2024. In addition, the 1998 bonds maturing after June 30, 2009 may be redeemed prior to their respective maturities after June 30, 2008 and at the option of the District at prices ranging from 100% to 101%.

1999 Sales Tax Revenue Bonds (the 1999 Bonds)

In October 1999, the District issued sales tax revenue bonds totaling $134,945,000 to provide funds for certain capital improvements including rehabilitation of the District's vehicles, initial deposit to a capital reserve account for the SFO Extension project and rehabilitation of the District's maintenance facility. The bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2004, the 1999 Bonds consist of $43,145,000 serial bonds due from 2004 to 2019 with interest rates ranging from 4.25% to 5.25% and three 5.5% term bonds in the amounts of $33,210,000, $18,515,000 and $38,290,000 due in 2026, 2029 and 2034, respectively. The District is required to make sinking fund payments on the term bond due July 1, 2026 beginning on July 1, 2020 and on the term bond due July 1, 2029 beginning on July 1, 2027 and on the term bond due July 1, 2034 beginning on July 1, 2030. In addition, the 1999 bonds maturing on or after July 1, 2010 may be redeemed prior to their respective maturities on or after July 1, 2009 and at the option of the District at prices ranging from 100% to 101%.

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. At June 30, 2004, the 2001 Bonds consist of $57,990,000 serial bonds due from 2012 to 2021 with interest rates ranging from 4.375% to 5.25%, $27,420,000 of a term bond due July 1, 2026 with an interest rate of 5%, $35,205,000 of a term bond due July 1, 2031 with an interest rate of 5%, and $45,350,000 of a 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.

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 to the extension project at the San Francisco International Airport.

Pursuant to the MOU, the construction loans as of June 30, 2004, consist of funds received for the SFO Extension project costs from SamTrans for $72,000,000 and MTC for $16,500,000 and $27,325,000 from MTC for the SFO Extension project's temporary cash requirements. The District loaned $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 $27,325,000 will be repaid 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 2004, $28,000,000 ($17,000,000 in fiscal year 2003) of the bonds due in fiscal year 2008 were paid in advance. At June 30, 2004, the bonds outstanding amount to $281,540,000, with interest rates ranging from 3.625% to 5.0% with maturities from June 15, 2005 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. This 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, 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:

(in thousands of dollars)	2004	2003
Long-term debt at beginning of year	$194,407	$186,616
Interest expense incurred during the year	13,457	13,322
Payments made during the year	(17,212)	(5,531)
	190,652	194,407
Lease payments due in one year	(6,716)	(17,212)
Net long-term debt at end of year	$183,936	$177,195

2002 SFO Extension 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 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, 2004, the 2002 Airport Premium Fare Bonds consist of $21,515,000 serial bonds due from 2006 to 2022 with interest rates ranging from 2.25% to 5.0%, $11,230,000 term bonds due August 1, 2026 with interest rate of 5.0%, and $23,970,000 term bonds due August 1, 2032 with interest rate of 5%. The District is required to make sinking fund payments on the term bonds due August 1, 2026 beginning on August 1, 2023 and on the term bonds due August 1, 2032 beginning on August 1, 2027.

2004 SFO Extension Refunding Bonds

On June 14, 2004, ABAG issued BART SFO Extension Refunding Bonds (FTA Capital Grant), 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 Series 2004 Bonds were issued in order to refund a portion of the ABAG BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A (the "Series 2001 Bonds"), to fund the reserve fund deposit with respect to the Series 2004 Bonds, and to pay certain costs of issuance of the Series 2004 Bonds. 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 limited obligations of ABAG payable solely from and collateralized by Revenues, which are 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 Series 2004 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 Series 2004 Bonds are not a general obligation of ABAG. The Series 2004 Bonds were issued initially as Auction Rate Securities ("ARS") at an interest rate of 1.05%. Thereafter, the Series 2004 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. 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, 2004, the balance of bonds outstanding is $66,000,000 due from 2008 to 2009. The Series 2004 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 Series 2004 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%. BART paid $248,000 upfront to Citibank N.A. for the interest rate cap for the full term of the agreement. As of June 30, 2004, the notional amount of the rate cap was $66,000,000, which was equivalent to the amount of outstanding Series 2004 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 Series 2004 bonds as of that date. The agreement terminates on June 15, 2009, which is the final maturity of the Series 2004 Bonds.

Credit Risk — As of June 30, 2004, the interest rate cap agreement had a fair market value of $110,230. 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 Series 2004 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 Series 2004 Bonds would no longer be effectively capped at 7.00%.

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, 2004.

In July 2001, the District defeased a portion of 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 advance refunding was made to achieve budgetary savings by extending debt service requirements further into the future and to take advantage of lower interest rates. The amount outstanding on these defeased bonds was $35,140,000 at June 30, 2004.

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 2004 and 2003.

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, 2004, the District has recorded estimated arbitrage liabilities amounting to $2,820,000 ($2,683,000 in 2003), which are included in other liabilities in the Statements of Net Assets (Note 8).

Debt Repayments

The following is a schedule of long-term debt principal payments required as of June 30, 2004:

(in thousand of dollars)	1990 Bonds	1995 Bonds	1998 Bonds	1999 Bonds	2001 Bonds	TFA Bridge Toll Notes	Construction Loans	FTA Capital Grant Bonds	Lease/ Leaseback Obligation	2002 SFO Premium Fare Bonds	2004 SFO Extension Refunding Bonds	Total
Year ending June 30:												
2005	$ 9,615	$ 2,210	$ 3,860	$ 1,860	$ –	$ 8,075	$ –	$ 61,295	$ 6,716	$ –	$ –	$ 93,631
2006	–	2,315	13,775	1,940	–	8,495	27,325	64,210	51,473	–	–	169,533
2007	–	2,435	14,675	2,025	–	21,785	–	46,330	39,362	550	–	127,162
2008	–	2,555	15,415	2,115	–	–	–	6,040	12,812	570	46,025	85,532
2009	–	2,685	16,405	2,215	–	–	–	103,665	7,298	640	19,975	152,883
2010-2014	28,775	10,500	46,580	12,765	15,690	–	–	–	36,158	4,405	–	154,873
2015-2019	–	16,950	41,970	16,410	28,855	–	–	–	165,954	7,080	–	277,219
2020-2024	–	10,150	79,105	21,255	23,600	–	–	–	–	10,775	–	144,885
2025-2029	–	–	113,265	27,780	30,305	–	–	–	–	15,665	–	187,015
2030-2034	–	–	–	36,295	38,925	–	–	–	–	17,030	–	92,250
2035-2039	–	–	–	8,500	28,590	–	–	–	–	–	–	37,090
Thereafter	–	–	–	–	–	–	88,500	–	–	–	–	88,500
	$38,390	$49,800	$345,050	$133,160	$165,965	$38,355	$115,825	$281,540	$319,773	$56,715	$66,000	$1,610,573

Add/(deduct):	
Unamortized bond premium	10,692
Unamortized bond discount and issuance cost	(26,084)
Future imputed interest on lease/leaseback obligation	(129,121)
Current portion of long-term debt	(93,631)
Net long-term debt portion	$1,372,429

8. Deferred Revenue and Other Liabilities

At June 30, 2004 and 2003 the balances and changes in deferred revenue and other liabilities are summarized as follows:

(in thousands of dollars)	Deferred Revenue	Other Liabilities	Sale/ Leaseback
Fiscal Year 2004			
Liabilities at beginning of year	$42,132	$2,683	$23,658
Additions during the year	7,683	2,036	–
Amortization/payments during the year	(10,146)	–	(3,154)
Liabilities at end of year	39,669	4,719	20,504
Less-current portion	(8,408)	(2,095)	(3,154)
Net noncurrent portion	$31,261	$2,624	$17,350
Fiscal Year 2003			
Liabilities at beginning of year	$43,228	$2,563	$26,812
Additions during the year	7,281	925	–
Amortization/payments during the year	(8,377)	(805)	(3,154)
Liabilities at end of year	42,132	2,683	23,658
Less-current portion	(8,598)	–	(3,154)
Net noncurrent portion	$33,534	$2,683	$20,504

Deferred revenue consists mainly of the cash gain received by the District from the lease/leaseback of certain rail traffic equipment in 2002 (see Note 7) and from the sale/leaseback of 25 C-2 rail cars in 1995 (discussed below), prepayments of fiber optic revenues received from others, and an estimate of passenger tickets sold but unused.

Other liabilities include estimated arbitrage liabilities related to the District's tax exempt bond issuance (see Note 7) and accrual of rent expense on the District's new administrative office.

Sale/leaseback amounts reflect changes in the liability recorded as part of that transaction as discussed below.

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 $2,000,000 which is equal to the amount of cash received on the sale. The gain was deferred and is being amortized over 30 years. In addition, the District recorded a receivable of $48,368,000 and a capital lease obligation of the same amount. The receivable and the liability will be reduced by a corresponding amount over the term of the lease. At June 30, 2004 and 2003, the balance of the deferred gain was $1,162,000 and $1,217,000, respectively. The balance of both the receivable and the liability was $20,504,000 and $23,658,000 as of June 30, 2004 and 2003, respectively and is reflected in the statement of net assets as 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.

Accumulated depreciation related to the C-2 rail cars covered by the sale/leaseback agreement totaled $16,820,000 and $14,967,000 as of June 30, 2004 and 2003, respectively.

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, 2004 are summarized as follows:

(in thousands of dollars)	SFO Extension Project
Total approved project costs	$1,347,230
Total approved federal allocation received	$ 471,726
Less: cumulative amounts of project costs incurred and earned	749,229
Capital grants receivable	$ (277,503)

(in thousands of dollars)	Other Capital Projects
Total approved project costs	$659,099
Total approved federal allocation	$530,541
Less: cumulative amounts of project costs incurred and earned	472,554
Remaining approved federal allocation	$ 57,987

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

10. State and Local Financial Assistance

The District is eligible to receive local operating and capital assistance from the Transportation Development Act Funds ("TDA"). For the year ended June 30, 2004, there was no TDA operating assistance. In fiscal year 2003, the District received $357,000 TDA operating assistance from the County of Alameda. There was no TDA capital assistance received in fiscal years 2004 or 2003.

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. There was no STA operating or capital assistance for the fiscal years 2004 or 2003.

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 2004 and 2003 are as follows:

	2004	2003
Prior year allocation received in the current year	$ 209,000	$ 319,000
Current year allocation received in the current year	1,054,000	1,103,000
Current year allocation received in the following year	344,000	209,000
	$1,607,000	$1,631,000

The District's revenues in fiscal 2004 and 2003 that relate to the Measure B funds were $1,607,000 and $1,422,000, 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. The SFO Extension started its revenue operations on June 22, 2003. For fiscal year ended June 30, 2004, the District recognized $18,268,000 ($599,000 in 2003) 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 2,560 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.

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

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

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

Funding Policy

The Plan's funding policy provides for periodic District contributions at actuarially- determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by contractual agreements. The individual entry age normal method is used to determine the normal cost, and beginning on July 1, 1997, the unfunded actuarial accrued surplus or liability (past service liability) is amortized as a level percentage of future covered payroll over 13 years for the Miscellaneous Plan and the Safety Plan. District contributions for the year ended June 30, 2004 to cover normal cost and to amortize the unfunded actuarial accrued surplus approximated 7.201% (7.051% in 2003) and 15.029% (15.050% in 2003) of covered payroll for the Miscellaneous Plan and the Safety Plan, respectively.

The District was not required to make contributions to the Fund for covered employees for the fiscal year 2004 due to a surplus of the District's portion of the Fund's net assets over the District's pension benefit obligation caused by a change in 1988 in the actuarial valuation method and an actual rate of return on investment assets that exceeded the assumed rate.

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2004 and 2003 was $222,678,000 and $213,902,000, respectively. The District's 2004 and 2003 payroll for all employees was $245,589,000 and $230,839,000, 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, due to the 2001 Collective Bargaining Agreements and because of the superfunded status of the Fund, all employees, except sworn police officers, were not required to make contributions to the Fund.

Since the District has made the actuarially-determined required contributions since 1988, the pension liability or asset was zero at June 30, 2004, in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

Funding Status and Annual Pension Cost

Three-Year Trend Information for the Fund:

(in thousands of dollars)	Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
Miscellaneous Plan:	June 30, 2002	$12,203	100%	$ –
	June 30, 2003	$14,801	100%	$ –
	June 30, 2004	$15,356	100%	$ –
Safety Plan:	June 30, 2002	$ 1,803	100%	$ –
	June 30, 2003	$ 2,026	100%	$ –
	June 30, 2004	$ 2,102	100%	$ –

The required contribution was determined as part of an actuarial valuation performed as of June 30, 2003, the latest available for the Fund. The significant actuarial assumptions used in the 2003 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 7.75%, annual payroll increases of 3.00% attributable to inflation, 3.25% attributable to real salary increases, and merit increases that vary by length of service, and no postretirement benefit increases.

The funding status applicable to the District's employee group at June 30, 2003 (the latest available for the Fund) is summarized as follows:

Funded Status of the Miscellaneous Plan (in thousands of dollars)

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
6/30/01	$722,298	$991,464	$(269,166)	137.3%	$184,513	(149.970)%
6/30/02	$801,662	$944,685	$(143,023)	117.8%	$196,260	(72.900)%
6/30/03	$939,072	$950,571	$ (11,499)	101.2%	$202,170	(5.700)%

Funded Status of the Safety Plan (in thousands of dollars)

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
6/30/01	$ 70,958	$83,306	$(12,348)	117.4%	$12,385	(99.700)%
6/30/02	$ 78,154	$80,207	$ (2,053)	102.6%	$12,753	(16.100)%
6/30/03	$100,960	$82,329	$ 18,631	81.5%	$14,277	(130.500)%

Postretirement Health Care Cost

In addition to the retirement benefits described above, as specified in the District's contractual agreements, the District provides postretirement 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, 915 retirees and surviving spouses (818 in 2003) are provided this benefit. The District paid up to $508,000 and $405,000 per month for health insurance premiums for the retirees and surviving spouses during fiscal years 2004 and 2003, respectively. These benefits, less a modest premium contribution, are fully funded by the District and accounted for on a pay-as-you-go basis. Cash reimbursements of these benefits totaled $5,525,000 in 2004 ($3,986,000 in 2003). See Note 12.

12. 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 an asset to be recognized as an offset to the employer's OPEB obligation, the asset must be 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 (see Note 2). 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 the obligation it will be required to accrue upon adoption of GASB 45. At June 30, 2004, assets held in the Trust included money market, U.S. Treasury and agency short-term obligation investments with a fair value of $23,598,000. 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.

13. Deferred Compensation Plan

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

On January 1, 1997, the District amended the deferred compensation plan to conform to the Federal Small Business Protection Act of 1996 ("SBPA"). The amendment provided for the creation of a third party trust for the deferred compensation plan and all income attributable to those amounts. The funds are not included as part of the District's assets in the accompanying financial statements.

14. 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, most employees receive 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, 2004 and 2003 were $6,947,000 and $6,933,000, respectively. The Money Purchase Pension Plan assets at June 30, 2004 and 2003 (excluded from the accompanying financial statements) per the plan administrator's unaudited report were $260,656,000 and $233,078,000, respectively. At June 30, 2004, there were approximately 251 (294 in 2003) 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.

15. Board of Directors' Expenses

Total Directors' expenses, consisting of travel and other business related expenses for the years ended June 30, 2004 and 2003 amounted to $22,000 and $26,000, respectively.

16. Commitments and Contingencies

Litigation

The District is involved in various lawsuits, claims and disputes, which for the most part are normal to the District's operations. It is the opinion of the District's management that the costs that might be incurred in the disposition of these matters, if any, would not materially affect the District's financial position.

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, 2004 are as follows:

(in thousands of dollars)	Operating Leases
2005	$ 4,102
2006	6,671
2007	8,243
2008	8,185
2009	8,107
Thereafter	127,846
Total minimum payments	$163,154

Rent expense under all operating leases was $7,881,000 and $4,743,000 for the years ended June 30, 2004 and 2003, 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 gross receipts actually received by FDC's tenants, subtenants, sublessees, licensees and concessionaires from gross rental income, operations of any garage and/or parking lot included in the project improvements and all other gross receipts of whatsoever kind and categories from the operation of the premises.

The District provided FDC a Rent Credit amounting to $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.

Sources and Uses of Operating Funds

(in thousands of dollars)	2004 Amount	2004 Percent	2003 Amount	2003 Percent
Sources of Operating Funds				
Transaction and Use Sales Tax (Net of transfers to nonoperating activities)	$ 111,200	26%	$ 108,223	28%
Passenger Fares	220,391	52%	191,386	50%
Property Tax	21,372	5%	20,253	5%
Other:				
Investment Income and Other Operating Revenues	15,478	4%	19,293	5%
Construction Funds (Capitalized Costs)	34,758	8%	41,515	11%
Local Financial Assistance	19,875	5%	2,419	1%
Total — Other	70,111	17%	63,227	17%
Total Sources of Operating Funds	$ 423,074	100%	$ 383,089	100%
Uses of Operating Funds				
Maintenance	$ 145,683	34%	$ 135,938	35%
Transportation	121,257	29%	105,155	28%
General Administration	102,849	24%	94,900	25%
Police Services	31,080	7%	28,135	7%
Other:				
Capital Designation	8,043	2%	2,307	1%
Construction and Engineering	15,824	4%	16,654	4%
Decrease in Retained Earnings	(1,662)	0%	0	0%
Total — Other	22,205	6%	18,961	5%
Total Uses of Operating Funds	$ 423,074	100%	$ 383,089	100%

Sources and Uses of Capital Funds

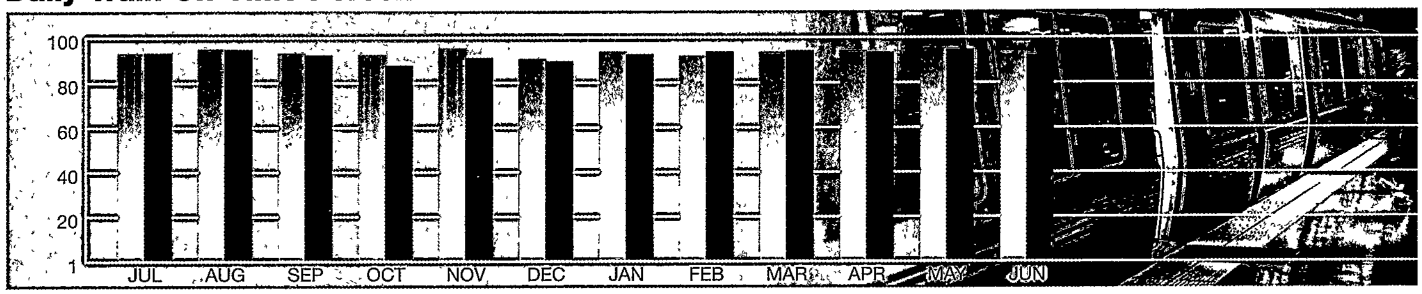
(in thousands of dollars)	2004 Amount	2004 Percent	2003 Amount	2003 Percent
Sources of Capital Funds				
District	$ 51,640	41%	$ 176,155	57%
Federal	43,377	34%	99,948	33%
State	16,254	13%	18,928	6%
Local	15,378	12%	11,316	4%
Total Sources of Capital Funds	$126,649	100%	$ 306,347	100%
Uses of Capital Funds				
Construction:				
Line	$ 60,471	48%	$ 195,520	64%
Systemwide	17,015	13%	31,916	10%
Support Facilities	626	0%	316	0%
Total — Construction	78,112	61%	227,752	74%
Equipment:				
Train Control	6,363	5%	8,011	3%
Transit Vehicles	13,360	11%	46,552	15%
Automatic Fare Collections	24,503	19%	21,764	7%
Management Information Systems	2,878	2%	496	0%
Other Equipment	599	1%	1,322	1%
Total — Equipment	47,703	38%	78,145	26%
Studies and Other	834	1%	450	0%
Total Uses of Capital Funds	$126,649	100%	$ 306,347	100%

Performance Highlights

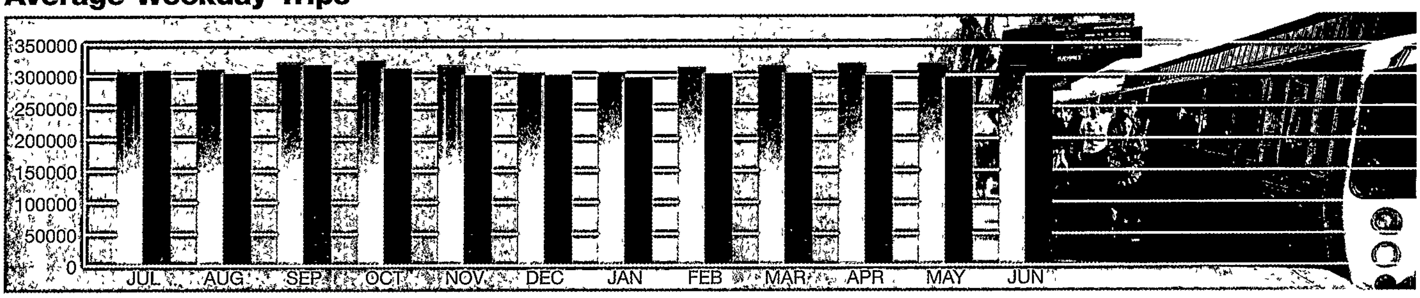
	2004	2003
Rail Ridership		
Annual passenger trips	91,042,192	87,380,764
Average weekday trip	306,570	295,158
Average trip length	13.49	12.96
Annual passenger miles	1,228,433,264	1,145,851,900
Daily train on-time performance	92.7	91.8
System utilization	29.3%	29.1%
End-of-period ratios[1]:		
Peak patronage	57%	57%
Off-peak patronage	43%	43%
Operations		
Annual revenue car miles	62,373,334	58,880,681
Passenger accidents/million passenger miles	6.96	7.45
Passenger crimes/million passenger miles	46.98	50.57
Financial		
Net passenger revenue	$220,391,194	$191,385,802
Other operating revenue (includes investment income from operations)	$ 15,478,729	$ 19,293,326
Total operating revenue	$235,869,933	$210,658,580
Net operating expense (excluding depreciation)	$381,935,762	$339,267,280
System farebox ratio: Net passenger revenue/net operating expense	57.7%	56.4%
System operating ratio: Total operating revenue/total operating expense	61.8%	62.1%
Net rail passenger revenue/passenger mile	$0.179	$0.167
Rail Operating cost/passenger mile	29.9¢	28.3¢
Net average rail passenger fare including FastPass	$2.42	$2.18

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

Daily Train On-Time Percent



Average Weekday Trips



FY04 FY03

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 2004*

James Fang	President — San Francisco
Dan Richard	Vice President — Orinda

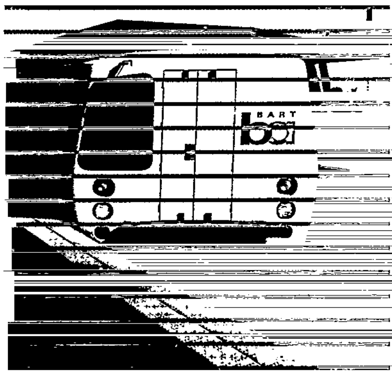
Members of the Board

Dan Richard	District 1	Orinda
Joel Keller	District 2	Antioch
Roy Nakadegawa	District 3	Berkeley
Carole Ward Allen	District 4	Oakland
Peter W. Snyder	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

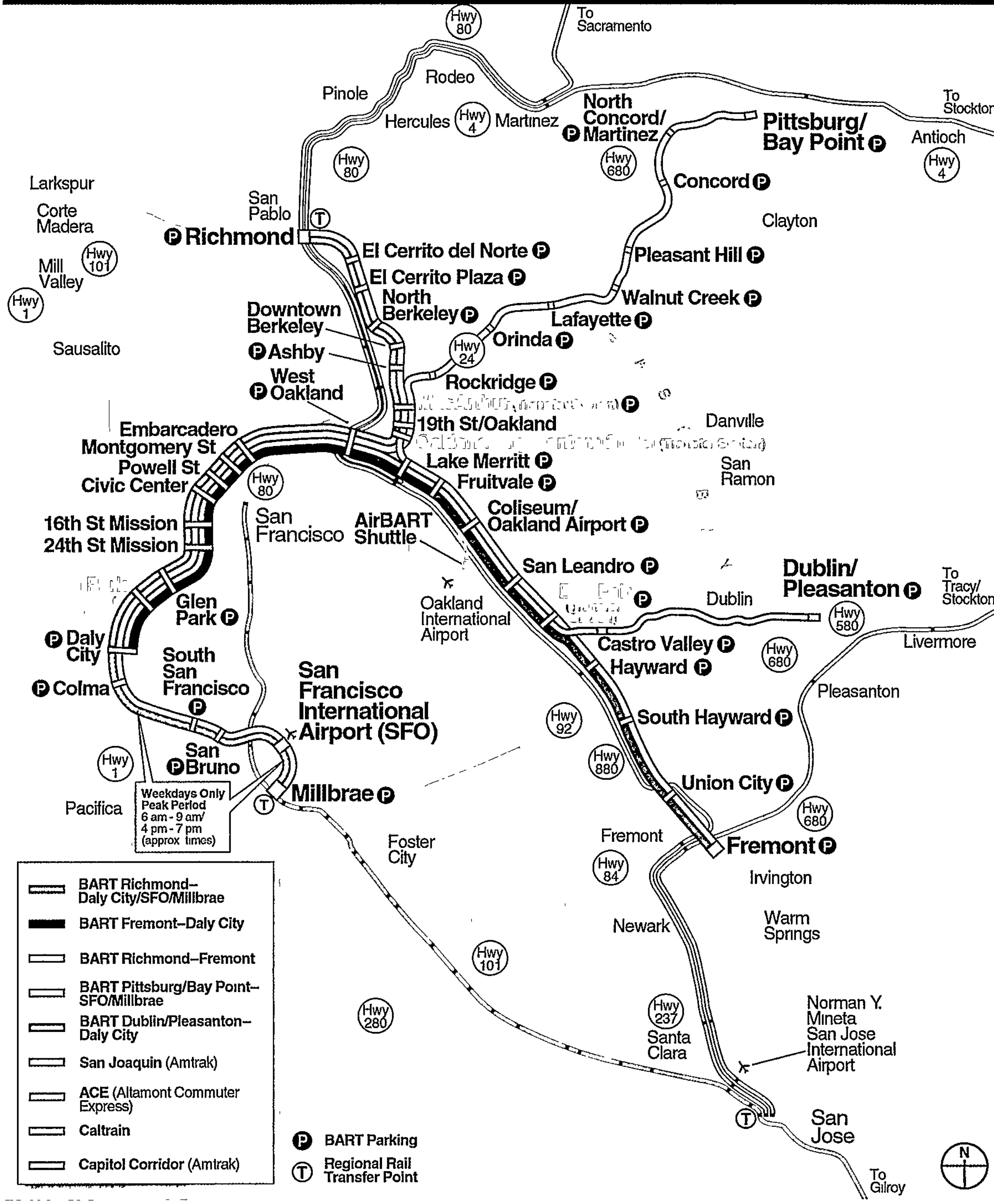
Board Appointed Officers

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.


BART

BART System Map



BART

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