SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Independent Auditor's Report,
Management's Discussion and Analysis,
and Basic Financial Statements

For the Years Ended June 30, 2009 and 2008

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

For the Years Ended June 30, 2009 and 2008

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the San Francisco Bay Area Rapid Transit District (the District) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2009 and 2008, 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.

As described in Note 1 to the basic financial statements, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statement No. 25 and No. 27,* effective July 1, 2007 and GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Walnut Creek, California
November 24, 2009

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, 2009 and 2008. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

The Financial Statements

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

Overview of the Enterprise Fund Financial Statements

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

The net asset component *invested in capital assets, net of related debt*, consists of capital assets, 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 assets component includes net assets that have been designated by management for specific purposes, which in the case of the District include allocations to fund capital projects, and other liabilities, which indicate that management does not consider them to be available for general operations.

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

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

Financial Highlights

Statements of Revenues, Expenses and Changes in Net Assets

A summary of the District's *Statements of Revenues, Expenses and Changes in Net Assets* for fiscal years 2009, 2008 and 2007 is as follows (dollar amounts in thousands):

	2009	2008	2007
Operating revenues	$ 348,238	$ 337,304	$ 307,370
Operating expenses, net	(666,379)	(653,219)	(593,652)
Operating loss	(318,141)	(315,915)	(286,282)
Nonoperating revenues, net	239,111	284,525	269,345
Capital contributions	190,513	144,096	75,283
Change in net assets	111,483	112,706	58,346
Net assets, beginning of year	4,497,340	4,384,634	4,326,288
Net assets, end of year	$ 4,608,823	$ 4,497,340	$ 4,384,634

Operating Revenues

In fiscal year 2009, operating revenues increased by $10,934,000 which is primarily due to (1) an increase of $8,637,000 in passenger fares due to the whole year effect in fiscal year 2009, as compared to six months in fiscal year 2008 of the 5.4% rate increase on January 1, 2008; (2) increase of $710,000 in support costs reimbursements received from telecommunication projects; (3) increase of $958,000 in parking revenue; and (4) receipt of medicare reimbursements from CalPERS amounting to $914,000.

The increase of $29,934,000 in operating revenues in fiscal year 2008 is mainly credited to an increase of $27,377,000 from passenger fares and an increase of $1,555,000 in parking revenues. The increase in passenger fares is due to a 5.4% increase in average weekday passenger trips from 339,359 in fiscal year 2007 to 357,775 in fiscal year 2008 and a 5.4% increase in passenger fare effective January 1, 2008.

Operating Expenses

In fiscal year 2009, operating expenses increased by $13,160,000 which is primarily due to (1) an increase of $13,071,000 in employee salaries and benefits which include $7,951,000 for 3% contractual salary increase on July 1, 2008, $2,344,000 increase in medical health insurance premiums and $2,766,000 increase in pension and other post employment benefit contributions; (2) increase in repairs and maintenance cost of $4,247,000; (3) increase of $3,655,000 in other operating expenses primarily for traction electrical supply for $2,149,000 and express bus and paratransit expenses totaling $1,507,000; (4) increase of $2,826,000 in depreciation expense; and (5) with offsetting expense reductions coming from an increase of $5,400,000 in labor costs reimbursed by capital projects and an estimated insurance recovery from Hayward fire amounting to $5,565,000.

The net operating expenses in fiscal year 2008 increased by $59,567,000 which is largely due to (1) an increase of $30,793,000 in other postemployment benefit (OPEB) expenses due to the implementation of

GASB 45, which required that OPEB costs be accounted for on an accrual instead of the pay-as-you-go basis (Note 13); (2) an increase of $5,128,000 in salaries and wages mainly due to the 2% contractual pay increase on July 1, 2007; (3) an increase of $2,844,000 primarily due to a 2% increase in employer contributions rate to CalPERS; (4) an increase of $3,692,000 in medical health insurance premiums consistent with industry norm; (5) a decrease of $3,808,000 in labor costs charged to completed capital projects in the prior year; (6) an increase of $3,509,000 in materials and supplies usage mainly for the repairs and maintenance of system structures and revenue vehicles; and (7) an increase of $7,391,000 in depreciation expense.

Nonoperating Revenues
In fiscal year 2009, nonoperating revenues decreased by 16% or $45,414,000. The decrease is mainly due to (1) a decrease of $18,347,000 in sales tax revenues due to the general economic slowdown; (2) the District received $801,000 operating state transit assistance fund in fiscal year 2009 which is a decrease of $22,311,000 from fiscal year 2008; (3) decrease in investment income amounting to $14,307,000 due to lesser amounts of monies invested; and (4) offset by an increase in property tax revenues of $1,401,000 earmarked for operations and $9,353,000 for the debt service of the general obligation bonds.

The nonoperating revenues in fiscal year 2008 had an increase of $15,180,000 which is primarily due to (1) an increase in property tax revenues of $13,353,000 earmarked for debt service of the General Obligation Bonds; and (2) an increase in sales tax revenues amounting to $3,827,000; which was offset by an increase of $6,786,000 in debt service and interest expenses due to the full payments of some long term debts in fiscal year 2007.

Capital Contributions
The revenues from capital contributions relate to grants and other financial assistance received by the District from the federal, state and local agencies to fund capital projects. The District receives reimbursement-type grants on which the District has to first incur eligible costs under the provider's program before qualifying for the grant resources. Revenues from capital contributions are recognized at the time when the eligible project costs are incurred. The capital contributions in fiscal year 2009 showed an increase of $46,417,000 and $68,813,000 in fiscal year 2008. The capital contributions in fiscal year 2009 include donated assets received by the District from the Surplus Property Authority of Alameda County consisting of a fully completed parking garage and approximately 10.533 acres of land located in BART's East Dublin/Pleasanton station. The parking garage was booked at a value of $39,413,000, which is equal to its construction cost as reported by the developer. The donated land was booked at a value of $10,235,000. (Note 5). The major additions in fiscal year 2009 to capital projects are detailed on pages 6 and 7.

The increase in fiscal year 2008 came from increases in federal grants amounting to $5,892,000, state grants of $29,027,000 and local grants of $33,888,000.

Statements of Net Assets
A comparison of the District's *Statements of Net Assets* as of June 30, 2009, 2008 and 2007 is as follows (dollar amounts in thousands):

	2009	2008	2007
Current assets	$ 661,320	$ 713,765	$ 643,176
Noncurrent assets - capital assets, net	5,283,987	5,080,746	4,967,443
Noncurrent assets - other	554,761	589,910	174,661
Total assets	6,500,068	6,384,421	5,785,280
Current liabilities	325,406	302,315	215,629
Noncurrent liabilities	1,565,839	1,584,766	1,185,017
Total liabilities	1,891,245	1,887,081	1,400,646
Net assets			
Invested in capital assets, net of related debt	4,324,423	4,193,943	4,084,589
Restricted net assets	139,939	80,513	71,077
Unrestricted net assets	144,461	222,884	228,968
Total net assets	$ 4,608,823	$ 4,497,340	$ 4,384,634

Current Assets
In fiscal year 2009, current assets decreased by $52,445,000 which is mainly due to (1) a decrease of $78,837,000 in cash, cash equivalents and investments; offset by (2) increases in the following receivables: capital grants for $15,591,000, insurance recovery on the Hayward fire of $5,425,000, property tax revenue amounting to $1,653,000 and unreimbursed operating and capital expenses of Capital Corridor Joint Powers Authority for $1,472,000.

Current assets in fiscal year 2008 showed an increase of $70,589,000. The increase in fiscal year 2008 can be attributed to an increase of $31,715,000 in cash, cash equivalents and investments-current and to an increase of $37,378,000 in capital grants receivable.

Noncurrent Assets - Other
In fiscal year 2009, noncurrent assets- other has a decrease of $35,149,000 which is all attributed to the decrease in noncurrent restricted investments which is mainly due to the use of bond proceeds to pay for capital expenditures.

Noncurrent assets – other in fiscal year 2008 showed an increase of $415,249,000 which is principally due to the increase in restricted investments coming from the proceeds of the 2007 General Obligation Bonds amounting to $413,047,000.

Current Liabilities
In fiscal year 2009, current liabilities increased by $23,091,000 which is accounted for as follows: (1) an increase of $6,107,000 in payables to vendors and contractors; (2) an increase of $9,199,000 in accruals for employee salaries and benefits; (3) a $15,871,000 increase in the current portion of long-term debt, which is mainly from the lease/leaseback obligation; and (4) a decrease of $8,540,000 in advances received from grantors.

The current liabilities as of June 30, 2008 showed an increase of $86,686,000 which is mostly due to (1) an increase in payables to vendors and contractors for operating and capital expenditures amounting to $25,199,000; (2) an increase of $2l,274,000 in unfunded liabilities for other postemployment benefits; (3) an increase of $27,000,000 attributed to advance payments received from grant agreements mainly from Proposition 1B grants to fund the District's seismic retrofit program, extension, and other projects; and (4) an increase in interest expense payable of $5,824,000 largely from the General Obligation Bonds and the lease/leaseback obligation.

Noncurrent Liabilities

The noncurrent liabilities in fiscal year 2009 showed a decrease of $18,927,000 which is mainly attributed to (1) principal payments of long term obligations amounting to $51,980,000; (2) increase of $15,870,000 in the current portion of long-term debt; (3) an increase in deferred revenue in the form of a parking structure located in BART's Pleasant Hill station with a value of $51,236,000 received from the Pleasant Hill BART Station Leasing Authority and which is considered as a prepayment of its ground lease up to year 2105 on certain land owned by BART (Note 16); (4) decrease of $7,104,000 for the amortization for the year of other deferred revenues; and (5) increase of $3,206,000 in the long-term portion of compensated absences.

The noncurrent liabilities as of June 30, 2008 showed an increase of $399,749,000 which is largely due to (1) the issuance in July 2007 of a $400,000,000 General Obligation Bond as additional funding for the District's seismic project; (2) offset by the annual principal payments of $52,588,000 of the District's other long term debts; and (3) increase in advance from grant agreements of $39,865,000 coming from the Proposition 1B grants to fund the District's seismic retrofit program, extension and other projects.

Capital Assets

Details of the capital assets, net of accumulated depreciation, as of June 30, 2009, 2008 and 2007 are as follows (dollar amounts in thousands):

	2009	2008	2007
Land	$ 540,004	$ 530,623	$ 530,509
Stations, track, structures and improvements	2,997,464	2,926,965	2,907,322
Buildings	5,609	5,559	5,652
Revenue transit vehicles	401,102	447,243	493,401
Other	371,014	369,075	313,378
Construction in progress	968,794	801,281	717,181
Total capital assets	$ 5,283,987	$ 5,080,746	$ 4,967,443

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $884,558,000 at June 30, 2009 and $647,751,000 at June 30, 2008.

The District's capital assets, before accumulated depreciation, increased by $338,696,000 in 2009 and by $244,811,000 in 2008. The major additions, including construction in progress, during the years included capital expenditures for the acquisition and/or major improvements on the following assets:

- core system and extensions amounting to $193,732,000 in 2009 and $205,754,000 in 2008;
- train control equipment totaling $15,072,000 in 2009 and $10,602,000 in 2008;
- revenue transit vehicles in the amount of $13,773,000 in 2009 and $7,320,000 in 2008;
- automatic fare collection and other equipment amounting to $20,977,000 in 2009 and $19,977,000 in 2008;
- Business Advancement Plan (BAP) which is a project to replace the information technology systems supporting the District's administrative business totaling $3,090,000 in 2009 and $3,773,000 in 2008.

The 2009 additions also included (1) donated assets from the Surplus Property Authority of Alameda County in the form of a newly constructed parking garage in BART's East Dublin/Pleasanton station with a cost of $39,413,000 and land valued at $10,235,000 (Note 5); and (2) the District took ownership from the Pleasant Hill BART Station Leasing Authority of a new parking garage located in BART's Pleasant Hill station with a cost of $51,236,000 received as a ground lease payment for certain real property owned by BART (Notes 5 and 16).

Long-Term Debt

The outstanding balance of total long-term debt (including current portion but excluding unamortized balance of bond premium/discounts) showed a decrease of $50,728,000 in fiscal year 2009 and an increase of $351,124,000 in fiscal year 2008. Below is a summary of total long-term debt as of June 30, 2009, 2008 and 2007 (dollar amounts in thousands):

	2009	2008	2007
Bonds payable from and collateralized by a pledge of sales tax revenues	$ 708,345	$ 728,725	$ 748,095
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	37,000	42,000	47,000
Lease/leaseback obligation, including accumulated accretion, for rail traffic control equipment	125,876	124,624	128,695
Bonds payable from the premium fare imposed on the passengers who board on or depart from the San Francisco International Airport Station	54,955	55,595	56,165
General obligation bonds	441,360	467,320	87,185
Total long-term debt	$ 1,456,036	$ 1,506,764	$ 1,155,640

There are no additions to long-term debt in fiscal year 2009.

Addition to Long-Term Debt in Fiscal Year 2008

In July 2007, the District issued the General Obligation (GO) Bonds (Election of 2004), 2007 Series B with an aggregate principal amount of $400,000,000. The 2007 GO Bonds constitute a portion of the total authorized amount of $980,000,000 of general obligation bonds of the District duly authorized by at least two-thirds of the qualified voters of the District voting on a ballot measure ("Measure AA") at an election held on November 2, 2004. The 2007 GO Bonds constitute the second issue of general obligation bonds pursuant to the Measure AA authorization. The Bonds were issued to finance earthquake safety improvements to BART facilities and structures. The Bonds are general obligations of the District, payable from and secured solely by property taxes levied by the District, as authorized by Measure AA, upon all property subject to taxation within the three BART counties of Alameda, Contra Costa and San Francisco. The national rating agencies of Standard & Poor's, Moody's and Fitch Ratings rated the 2007 GO Bonds at AAA, Aa1 and AAA, respectively.

Statements of Cash Flows/Cash, Cash Equivalents and Investments

A comparative presentation of the major sources and uses of cash for 2009, 2008 and 2007 is as follows (dollar amounts in thousands):

	2009	2008	2007
Net cash used in operating activities	$ (178,659)	$ (145,150)	$ (158,273)
Net cash provided by noncapital financing activities	190,827	230,899	230,080
Net cash provided by (used in) capital and related financing activities	(149,270)	329,007	(229,420)
Net cash provided by (used in) investing activities	(217,112)	(410,748)	383,004
Net change in cash and cash equivalents	(354,214)	4,008	225,391
Cash and cash equivalents, beginning of year	557,644	553,636	328,245
Cash and cash equivalents, end of year	203,430	557,644	553,636
Investments, end of year	730,388	492,595	47,628
Cash, cash equivalents and investments, end of year	$ 933,818	$ 1,050,239	$ 601,264

Cash, Cash Equivalents and Investments

The total cash, cash equivalents and investments held by the District Treasury and trustee banks as of June 30, 2009 decreased by $116,421,000 to $933,818,000 from $1,050,239,000 as of June 30, 2008. The decrease can be primarily attributed to expenditures of about $46,000,000 related to seismic project funded from the proceeds of the General Obligation Bonds and the use of approximately $25,000,000 of capital allocation funds to pay the expenses of various capital projects and the use of $22,493,000 from cash operating reserves to fund the operating shortfall in fiscal year 2009.

The total cash, cash equivalents and investments held by the District and trustee banks at June 30, 2008 amounted to $1,050,239,000, an increase of $448,975,000 compared to $601,264,000 reported as of June 30, 2007. The increase is primarily due to the total investments of $415,736,000 purchased from the proceeds of the 2007 GO Bonds.

Contacting the District's Financial Management

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Net Assets
June 30, 2009 and 2008
(dollar amounts in thousands)

	2009	2008
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 67,841	$ 333,528
Investments	208,265	24,125
Capital grants receivable	84,750	69,159
Receivables and other assets	29,399	20,204
Current portion of capital lease receivable	3,155	3,154
Materials and supplies	31,602	29,997
Total unrestricted current assets	425,012	480,167
Restricted assets		
Cash and cash equivalents	135,589	224,116
Investments	100,719	9,482
Total restricted current assets	236,308	233,598
Total current assets	661,320	713,765
Noncurrent assets		
Capital assets		
Nondepreciable	1,508,798	1,331,904
Depreciable, net of accumulated depreciation	3,775,189	3,748,842
Unrestricted assets		
Long-term portion of capital lease receivable	1,577	4,732
Receivables and other assets	12,764	13,575
Restricted assets		
Investments	421,404	458,988
Receivables and other assets	52,990	45,877
Deposits for sublease obligation	66,026	66,738
Total noncurrent assets	5,838,748	5,670,656
Total assets	6,500,068	6,384,421
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and other liabilities	200,186	190,704
Current portion of long-term debt	75,149	59,279
Self-insurance liabilities	10,441	8,478
Deferred revenue	36,475	40,700
Current portion of capital lease liability	3,155	3,154
Total current liabilities	325,406	302,315
Noncurrent liabilities		
Accounts payable and other liabilities	42,686	39,699
Long-term debt, net of current portion	1,382,048	1,448,477
Self-insurance liabilities	18,929	19,768
Deferred revenue	120,599	72,090
Capital lease liability, net of current portion	1,577	4,732
Total noncurrent liabilities	1,565,839	1,584,766
Total liabilities	1,891,245	1,887,081
Net assets		
Invested in capital assets, net of related debt	4,324,423	4,193,943
Restricted net assets		
For debt service and other liabilities	139,939	80,513
Unrestricted net assets	144,461	222,884
Total net assets	$ 4,608,823	$ 4,497,340

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2009 and 2008
(dollar amounts in thousands)

	2009	2008
Operating revenues		
Fares	$ 318,094	$ 309,457
Other	30,144	27,847
Total operating revenues	348,238	337,304
Operating expenses		
Transportation	167,241	154,720
Maintenance	210,410	200,306
Police services	49,607	44,665
Construction and engineering	23,876	19,772
General and administrative	121,399	136,538
Depreciation	136,764	133,938
Total operating expenses	709,297	689,939
Less - capitalized costs	(42,918)	(36,720)
Net operating expenses	666,379	653,219
Operating loss	(318,141)	(315,915)
Nonoperating revenues (expenses)		
Transactions and use tax - sales tax	184,286	202,632
Property tax	76,096	65,341
Operating financial assistance	34,068	57,616
Contribution for BART car replacement funding exchange program	(22,682)	(22,681)
Investment income	34,875	49,183
Interest expense	(68,159)	(68,460)
Other income (expense), net	627	894
Total nonoperating revenues, net	239,111	284,525
Change in net assets before capital contributions	(79,030)	(31,390)
Capital contributions	190,513	144,096
Change in net assets	111,483	112,706
Net assets, beginning of year	4,497,340	4,384,634
Net assets, end of year	$ 4,608,823	$ 4,497,340

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Cash Flows
For the years ended June 30, 2009 and 2008
(dollar amounts in thousands)

	2009	2008
Cash flows from operating activities		
Receipts from customers	$ 315,137	$ 311,066
Payments to suppliers	(146,366)	(128,846)
Payments to employees	(377,353)	(353,312)
Other operating cash receipts	29,923	25,942
Net cash used in operating activities	(178,659)	(145,150)
Cash flows from noncapital financing activities		
Transactions and use tax (sales tax) received	126,365	145,739
Property tax received	28,702	29,882
Financial assistance received	35,760	55,278
Net cash provided by noncapital financing activities	190,827	230,899
Cash flows from capital and related financing activities		
Transactions and use tax (sales tax) received	57,921	56,893
Property tax received	44,025	36,277
Capital grants received	114,087	111,328
Proceeds from issuance of 2007 General Obligation Bonds	-	400,000
Expenditures for facilities, property and equipment	(230,081)	(232,130)
Principal paid on long-term debt	(51,980)	(44,805)
Payments of long-term debt issuance and service costs	(192)	(1,440)
Premium received from issuance of long-term debt	-	12,335
Interest paid on long-term debt	(59,076)	(52,566)
Principal payments received from installment receivable	119	144
Advances from local funding agencies	-	66,593
Deposit - Lodi Power Plant	(1,411)	(941)
Contribution for BART car replacement funding exchange program	(22,682)	(22,681)
Net cash provided by (used in) capital and related financing activities	(149,270)	329,007
Cash flows from investing activities		
Proceeds from sale and maturity of investments	325,009	35,417
Purchase of investments	(562,802)	(477,120)
Investment income	20,681	30,955
Net cash provided by (used in) investing activities	(217,112)	(410,748)
Net change in cash and cash equivalents	(354,214)	4,008
Cash and cash equivalents, beginning of year	557,644	553,636
Cash and cash equivalents, end of year	$ 203,430	$ 557,644
Reconciliation of cash and cash equivalents to the Statements of Net Assets		
Current, unrestricted assets - cash and cash equivalents	$ 67,841	$ 333,528
Current, restricted assets - cash and cash equivalents	135,589	224,116
Total cash and cash equivalents	$ 203,430	$ 557,644

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Cash Flows, continued
For the years ended June 30, 2009 and 2008
(dollar amounts in thousands)

	2009	2008
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (318,141)	$ (315,915)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	136,764	133,938
Amortization of deferred settlement costs	325	101
Net effect of changes in		
Receivables and other assets	(10,693)	588
Materials and supplies	(1,605)	(455)
Accounts payable and other liabilities	11,557	36,088
Self-insurance liabilities	1,124	456
Deferred revenue	2,010	49
Net cash used in operating activities	$ (178,659)	$ (145,150)
Noncash transactions		
Capital assets acquired with a liability at year-end	$ 58,881	$ 52,460
Deferred ground lease	51,236	-
Donated capital assets	49,648	-
Lease/leaseback obligation additions	8,550	8,741
Lease/leaseback obligation amortization	7,298	12,812
Reduction in capital lease receivable and liability	3,155	3,154
Increase (decrease) in fair value of investments	34	4,204
Amortization of long-term debt premium, discount and issue costs	(443)	33
Amortization of deferred interest on early debt retirement	1,330	714
Amortization of deferred gain on lease/leaseback transaction	1,482	1,482

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Retiree Health Benefit Trust
Statements of Trust Net Assets
June 30, 2009 and 2008
(dollar amounts in thousands)

	2009	2008
Assets		
Cash and cash equivalents	$ 78	$ 140
Receivables and other assets	1,272	471
Pending trades receivable	1,700	7,255
Investments		
Domestic common stocks	31,958	19,549
U.S. Treasury obligations	6,635	12,546
Money market mutual funds	4,736	7,527
Mutual funds - equity	8,227	5,762
Corporate obligations	13,147	8,490
Foreign stocks	863	629
Foreign obligations	1,177	376
Total investments	66,743	54,879
Total assets	69,793	62,745
Liabilities		
Accounts payable	78	46
Pending trades payable	1,628	14,235
Total liabilities	1,706	14,281
Net assets held in trust for retiree health benefits	$ 68,087	$ 48,464

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Retiree Health Benefit Trust
Statements of Changes in Trust Net Assets
For the years ended June 30, 2009 and 2008
(dollar amounts in thousands)

	2009	2008
Additions		
Employer contributions		
Cash contributions	$ 24,940	$ 8,136
Pay-as-you-go contributions	12,561	11,844
Total employer contributions	37,501	19,980
Investment income (expense)		
Interest income	1,858	1,362
Realized gain (loss)	(4,884)	(256)
Net appreciation (decrease) in fair value of investments	(1,994)	(4,500)
Investment expense	(249)	(174)
Net investment expense	(5,269)	(3,568)
Total additions	32,232	16,412
Deductions		
Pay-as-you-go benefit payments	12,561	11,844
Legal fees	9	14
Audit fees	18	17
Insurance expense	21	21
Total deductions	12,609	11,896
Increase in trust net assets	19,623	4,516
Net assets held in trust for retiree health benefits:		
Beginning of year	48,464	43,948
End of year	$ 68,087	$ 48,464

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

1. Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

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

The District has defined its financial reporting entity in accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, which states that the financial reporting entity should consist of (a) the primary government, (b) the organizations for which the primary government is financially accountable, and (c) the other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on this definition, and the fact that the Transit Financing Authority (the "Authority") provides services almost entirely to the District, the primary government, the Authority's financial information is presented as a blended component unit of the District's financial statements (Note 15).

Basis of Accounting and Presentation

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

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

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

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

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

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

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

Capital Grants/Contributions
The District receives grants from the Federal Transit Administration ("FTA") and other agencies of the U.S. Department of Transportation, the State of California, and local transportation funds for the acquisition of transit-related equipment and improvements. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital contributions are required to be included in the determination of changes in net assets resulting in an increase in net revenue of $190,513,000 and $144,096,000 for fiscal years 2009 and 2008, respectively. Capital grants receivables represent amounts expected from governmental agencies to reimburse the District for costs incurred for capital projects (Notes 9 and 10).

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

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

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

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

The District capitalizes certain interest income and expense related to tax-free borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax-free borrowings. Amounts capitalized were a net interest expense of $1,175,000 in fiscal year 2009 and $1,878,000 in fiscal year 2008.

Deferred Revenue

Deferred revenue consists of (1) the cash gain received by the District from the lease/leaseback of certain rail traffic control equipment in 2002 (Note 7) and from the sale/leaseback of 25 C-2 rail cars in 1995 (Note 4); (2) 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; (3) estimated passenger tickets sold but unused; (4) advances received from grant agreements; and (5) prepayments of ground lease revenues (Note 16).

Compensated Absences

Compensated absences are reported and accrued as a liability in the period incurred. Compensated absences has a total balance of $59,393,000 as of June 30, 2009 and $54,594,000 in June 30, 2008 and is shown in the statements of net assets in accounts payable and other liabilities as follows (dollar amounts in thousands):

	2009	2008
Current liabilities	$ 19,481	$ 17,889
Noncurrent liabilities	39,912	36,705
Total	$ 59,393	$ 54,594

Pollution Remediation

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. There are no material remediation obligations that the District is currently or potentially involved in.

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 and other 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.

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 the amounts available for distribution, 75% is paid directly to the District for the purpose of paying operating expenses, except for the portion that is paid directly to trustees to cover principal and interest payments of maturing sales tax revenue bonds and equity reserves. The remaining 25% is allocated by the Metropolitan Transportation Commission ("MTC") to the District, the City and County of San Francisco, and the Alameda-Contra Costa Transit District for transit services. The District records the total transactions and use taxes earned (including amounts paid to the trustees) 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. Additionally, beginning in fiscal year 2006, the District received property tax allocations for the debt service payments on the 2005 and 2007 General Obligation Bonds. As required by the law of the State of California, the District utilizes the services of each of the three BART Counties of Alameda, Contra Costa and San Francisco for the assessment and collection of taxes for District purposes. District taxes are collected at the same time and on the same tax rolls as county, school district and other special district taxes. Property taxes are recorded as revenue in the fiscal year of levy. Assessed values are determined annually by the Assessor's Offices of City and County of San Francisco, County of Alameda and County of Contra Costa on January l, and become a lien on the real properties at January 1. The levy date for secured and unsecured properties is July 1 of each year. Secured taxes are due November l and February 1 and are delinquent if not paid by December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent after August 31.

Operating Financial Assistance
Financial assistance grants for operations from federal, state and local agencies 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 (Notes 9 and 10).

Collective Bargaining
Approximately 88% of the District's employees are subject to collective bargaining. The current bargaining units consist of the following:

- American Federation of State, County and Municipal Employees (AFSCME), Local 3993
- Amalgamated Transit Union (ATU), Local 1555
- Service Employees International Union (SEIU), Local 1021
- BART Police Officers Association (BPOA)
- BART Police Managers Association (BPMA)

Capitalized Costs
The District initially charges employee salaries, wages and benefits to operating expenses by functional expense category. Labor costs included in those amounts that are associated with capital projects are subsequently reclassified to be included in the cost of the related capital asset. This reclassification is reflected in the statement of revenues, expenses and changes in net assets as a reduction of operating expenses. The amounts of $42,918,000 and $36,720,000 were capitalized during the years ended June 30, 2009 and 2008, respectively.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation.

Recent Accounting Pronouncements That Have Not Been Adopted
In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the District's fiscal year ending June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this statement is effective for the District's fiscal year ending June 30, 2010.

2. Cash, Cash Equivalents and Investments

A. Cash, Cash Equivalents and Investments of the Enterprise Fund

Cash, cash equivalents and investments are reported in the Enterprise Fund as follows (dollar amounts in thousands):

	2009			2008		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Current assets						
Cash and cash equivalents	$ 67,841	$ 135,589	$ 203,430	$ 333,528	$ 224,116	$ 557,644
Investments	208,265	100,719	308,984	24,125	9,482	33,607
Noncurrent assets						
Investments	-	421,404	421,404	-	458,988	458,988
Total	$ 276,106	$ 657,712	$ 933,818	$ 357,653	$ 692,586	$ 1,050,239

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

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

The District's investments include amounts invested in the State of California Local Agency Investment Fund ("LAIF"). The total amount invested by all public agencies in LAIF is $25.2 billion at June 30, 2009 and 2008. LAIF is part of the State of California Pooled Money Investment Account ("PMIA"), whose balance at June 30, 2009 and 2008 was $50.9 billion and $70.0 billion, respectively. Of these amounts, 14.71% and 14.72% were invested in structured notes and asset-backed securities and the remaining balance was invested in non-derivative instruments as of June 30, 2009 and 2008, respectively. PMIA is not SEC-registered, but is required to invest according to the California Government Code. The average maturity of PMIA investments was 235 days and 224 days as of June 30, 2009 and 2008, respectively. The Local Investment Advisory Board ("Board") has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the pool. Withdrawals from LAIF are made on a dollar to dollar basis.

Interest rate risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. One of the District's primary objectives is to provide sufficient liquidity to meet its cash outflow needs, however, the District does not have any policies specifically addressing interest rate risk. A summary of investments by type of investments and by segmented time distribution as of June 30, 2009 and 2008 is as follows (dollar amounts in thousands):

	2009	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 - 5	6 - 10
Money market mutual funds	$ 160,526	$ 160,526	$ -	$ -
U.S. government agencies	46,010	-	10,816	35,194
Repurchase agreements	375,395	-	375,395	-
U.S. Treasury bills	305,282	305,282	-	-
Local Agency Investment Fund	20,000	20,000	-	-
Total investments	907,213	$ 485,808	$ 386,211	$ 35,194
Deposits with banks	22,525			
Certificates of deposit	3,702			
Impress funds	378			
Total cash and investments	$ 933,818			

	2008	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 - 5	6 - 10
Money market mutual funds	$ 171,831	$ 171,831	$ -	$ -
U.S. government agencies	205,529	159,588	10,234	35,707
Repurchase agreements	445,228	32,180	413,048	-
U.S. Treasury bills	164,574	164,574	-	-
Local Agency Investment Fund	20,000	20,000	-	-
Total investments	1,007,162	$ 548,173	$ 423,282	$ 35,707
Deposits with banks	38,898			
Certificates of deposit	3,800			
Imprest funds	379			
Total cash and investments	$ 1,050,239			

Credit Risk

The District's credit rating risk is governed by Section 53601 of the California Government Code which, among others, limits investments in money market mutual funds to those funds with the highest evaluations granted by the rating agencies, which is Aaam. The District has investments in U.S. Treasury and government agencies, bank repurchase agreements (underlying of U.S. Treasury securities and others), money market mutual funds, and in LAIF. There are no investment limits on the securities of U.S. Treasury or certain U.S. government agencies that are backed by the full faith and credit of the United States government. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's, Fitch Ratings and/or Moody's as of June 30, 2009 and 2008 (dollar amounts in thousands):

	2009	Credit Ratings			
	Fair Value	AAA	A	BB	Not Rated
Money market mutual funds	$ 160,526	$ 160,526	$ -	$ -	$ -
U.S. Government agencies	46,010	9,318	683	-	36,009
Repurchase agreements	375,395	187,662	-	187,733	-
U.S. Treasury bills	305,282	305,282	-	-	-
Local Agency Investment Fund	20,000	-	-	-	20,000
Total investments	907,213	$ 662,788	$ 683	$ 187,733	$ 56,009
Deposits with banks	22,525				
Certificates of deposit	3,702				
Imprest funds	378				
Total cash and investments	$ 933,818				

	2008	Credit Ratings			
	Fair Value	AAA	AA	A	Not Rated
Money market mutual funds	$ 171,831	$ 171,831	$ -	$ -	$ -
U.S. Government agencies	205,529	9,094	-	160,271	36,164
Repurchase agreements	445,228	206,509	206,539	32,180	-
U.S. Treasury bills	164,574	164,574	-	-	-
Local Agency Investment Fund	20,000	-	-	-	20,000
Total investments	1,007,162	$ 552,008	$ 206,539	$ 192,451	$ 56,164
Deposits with banks	38,898				
Certificates of deposit	3,800				
Imprest funds	379				
Total cash and investments	$1,050,239				

Concentration of credit risk

The District does not have a policy to limit investments in any one issuer to no more than 5% of the total portfolio. However, the California Government Code Section 53601.7 generally recommends that investments in one issuer do not exceed 5% of the entity's total portfolio, except obligations of the United States government, United States government agencies, and United States government-sponsored enterprises and no more than 10% of the entity's total portfolio may be invested in any one mutual fund. The following investments exceeded 5% of the District's total investment portfolio (dollar amounts in thousands):

	2009		2008	
	Amount	Percentage of Total Investment Portfolio (%)	Amount	Percentage of Total Investment Portfolio (%)
MBIA Repurchase Agreement	$ 187,733	21%	$ 206,539	20%
FSA Cap Repurchase Agreement	187,662	21%	206,509	20%
Federal National Mortgage Association	-	-	114,605	11%

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

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

B. Investments of the Retiree Health Benefit Trust ("Trust")

Investment Policy

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

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

Interest rate risk

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

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

A summary of investments by type of investments and by segmented time distribution as of June 30, 2009 and 2008 is as follows (dollar amounts in thousands):

	2009	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	$ 6,635	$ 2,190	$ 2,815	$ 866	$ 764
Money market mutual funds	4,736	4,736	-	-	-
Corporate obligations	13,147	-	1,521	5,723	5,903
Foreign obligations	1,177	-	7	641	529
Investments subject to interest rate risk	25,695	$ 6,926	$ 4,343	$ 7,230	$ 7,196
Domestic common stocks	31,958				
Mutual funds- equity	8,227				
Foreign stocks	863				
Total investments	$ 66,743				

	2008	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	$ 12,546	$ 3,159	$ 247	$ 610	$ 8,530
Money market mutual funds	7,527	7,527	-	-	-
Corporate obligations	8,490	-	2,265	1,377	4,848
Foreign obligations	376	-	79	156	141
Investments subject to interest rate risk	28,939	$ 10,686	$ 2,591	$ 2,143	$ 13,519
Domestic common stocks	19,549				
Mutual funds- equity	5,762				
Foreign stocks	629				
Total investments	$ 54,879				

Credit Risk

The Trust's credit risk policy is defined in its Statement of Investment Policy approved by the District's Board of Directors. The policy states that the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Trust's objectives and that the Trust's investment managers are expected to make reasonable efforts to control risk. The investment policy requires that all of the Trust's assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Trust, with minimal impact on market prices. The investment policy also demands that no single investment shall exceed five percent of the total Trust assets, at market value, except obligations of the U.S. Government, short-term money market funds, index funds and other diversified commingled accounts; and for actively managed equity accounts, where, for issues that comprise more than 4% of the account's stated benchmark, the limit shall be 125% of the weight of the common stock benchmark. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's and/or Moody's as of June 30, 2009 and 2008 (dollar amounts in thousands):

	2009	Credit Ratings					
	Fair Value	AAA	AA	A	BBB	BB	Not Rated
U.S. Treasury obligations	$ 6,635	$ 6,635	$ -	$ -	$ -	$ -	$ -
Money market mutual funds	4,736	4,736	-	-	-	-	-
Corporate obligations	13,147	2,353	636	5,830	4,011	287	30
Foreign obligations	1,177	-	198	-	971	8	-
Investments subject to credit risk	25,695	$ 13,724	$ 834	$ 5,830	$ 4,982	$ 295	$ 30
Domestic common stocks	31,958						
Mutual funds - equity	8,227						
Foreign stocks	863						
Total investments	$ 66,743						

	2008 Fair Value	Credit Ratings AAA	AA	A	BBB
U.S. Treasury obligations	$ 12,546	$ 12,546	$ -	$ -	$ -
Money market mutual funds	7,527	7,527	-	-	-
Corporate obligations	8,490	4,143	804	1,979	1,564
Foreign obligations	376	-	-	50	326
Investments subject to credit risk	28,939	$ 24,216	$ 804	$ 2,029	$ 1,890
Domestic common stocks	19,549				
Mutual funds - equity	5,762				
Foreign stocks	629				
Total investments	$ 54,879				

Concentration of credit risk
The Trust's investment policies mitigate exposure to concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5% of the total portfolio.

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

3. Receivables and Other Assets

The District reports the following aggregated accounts as receivables and other assets in the statements of net assets as of June 30, 2009 and 2008 (dollar amounts in thousands):

	2009	2008
Interest receivable - trust for sublease obligation	$ 34,645	$ 32,192
Interest receivable - other investments	4,666	3,762
Unamortized issuance costs	12,807	13,525
Deferred charges	767	864
Deposit for power supply	11,219	9,309
Off-site ticket vendor receivable	5,317	4,512
Notes receivable	4,123	4,139
Capitol Corridor Joint Powers Authority receivable (Note 16)	3,856	2,384
Property tax receivable	4,208	840
Prepaid expenses	2,031	2,249
Impress deposits for self-insurance liabilities	518	623
Other	11,095	5,316
Allowance for doubtful accounts	(99)	(59)
Total receivables and other assets	$ 95,153	$ 79,656
Current, unrestricted portion	$ 29,399	$ 20,204
Noncurrent, unrestricted portion	12,764	13,575
Noncurrent, restricted portion	52,990	45,877
Total receivables and other assets, as presented in the basic financial statements	$ 95,153	$ 79,656

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

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

The District recorded a gain on the sale of approximately $2,015,000, which is equal to the amount of cash received on the sale. The gain was deferred and is being amortized over 30 years. In addition, the District recorded a receivable of $48,368,000 and a capital lease obligation of the same amount. The receivable and the liability will be reduced by a corresponding amount over the term of the lease. At June 30, 2009 and 2008, the balance of the deferred gain was $888,000 and $943,000, respectively. The balance of both the receivable and the liability was $4,732,000 and $7,886,000 as of June 30, 2009 and 2008, respectively and is reflected in the statements of net assets as a capital lease receivable and capital lease liability, respectively. Other than the cash received upon the sale, no cash will be exchanged between the parties in settlement of the receivable and liability.

At June 30, 2009 and 2008 the balances of the capital lease receivable and of the capital lease liability related to the sale/leaseback are summarized as follows (dollar amounts in thousands):

	2009	2008
Amounts at beginning of year	$ 7,886	$ 11,041
Amortization during the year	(3,154)	(3,155)
Balance at end of year	4,732	7,886
Less - current portion	(3,155)	(3,154)
Net noncurrent portion	$ 1,577	$ 4,732

The District's capital lease receivable and capital lease liability have the following maturities for the remaining two fiscal years, which are summarized as follows (dollar amounts in thousands):

Fiscal Year Year Ending June 30	Annual Installments
2010	$ 3,155
2011	1,577
	$ 4,732

Accumulated depreciation related to the C-2 rail cars covered by the sale/leaseback agreement totaled $26,085,000 and $24,232,000 as of June 30, 2009 and 2008, respectively.

5. Capital Assets

Changes to capital assets during the year ended June 30, 2009 were as follows (dollar amounts in thousands):

	Lives (Years)	2008	Additions and Transfers	Retirements and Transfers	2009
Capital assets, not being depreciated					
Land	N/A	$ 530,623	$ 10,235	$ (854)	$ 540,004
Construction in progress	N/A	801,281	244,487	(76,974)	968,794
Total capital assets, not being depreciated		1,331,904	254,722	(77,828)	1,508,798
Capital assets, being depreciated					
Stations, track, structures and improvements	80	3,651,075	118,737	(46)	3,769,766
Buildings	80	7,472	-	-	7,472
System-wide operation and control	20	548,721	23,837	-	572,558
Revenue transit vehicles	30	1,042,346	-	-	1,042,346
Revenue transit vehicles under capital lease	30	55,593	-	-	55,593
Service and miscellaneous equipment	3-20	202,802	14,181	(532)	216,451
Capitalized construction and start-up costs	30	98,305	-	-	98,305
Repairable property items	30	17,341	6,653	(1,028)	22,966
Total capital assets, being depreciated		5,623,655	163,408	(1,606)	5,785,457
Less accumulated depreciation		(1,874,813)	(136,764)	1,309	(2,010,268)
Total capital assets, being depreciated, net		3,748,842	26,644	(297)	3,775,189
Total capital assets, net		$ 5,080,746	$ 281,366	$ (78,125)	$ 5,283,987

Changes to capital assets during the year ended June 30, 2008 were as follows (dollar amounts in thousands):

	Lives (Years)	2007	Additions and Transfers	Retirements and Transfers	2008
Capital assets, not being depreciated					
Land	N/A	$ 530,509	$ 114	$ -	$ 530,623
Construction in progress	N/A	717,181	245,483	(161,383)	801,281
Total capital assets, not being depreciated		1,247,690	245,597	(161,383)	1,331,904
Capital assets, being depreciated					
Stations, track, structures and improvements	80	3,582,842	68,187	46	3,651,075
Buildings	80	7,472	-	-	7,472
System-wide operation and control	20	543,763	5,361	(403)	548,721
Revenue transit vehicles	30	1,042,346	-	-	1,042,346
Revenue transit vehicles under capital lease	30	55,593	-	-	55,593
Service and miscellaneous equipment	3-20	117,522	87,571	(2,291)	202,802
Capitalized construction and start-up costs	30	98,305	-	-	98,305
Repairable property items	30	15,215	2,142	(16)	17,341
Total capital assets, being depreciated		5,463,058	163,261	(2,664)	5,623,655
Less accumulated depreciation		(1,743,305)	(133,938)	2,430	(1,874,813)
Total capital assets, being depreciated, net		3,719,753	29,323	(234)	3,748,842
Total capital assets, net		$ 4,967,443	$ 274,920	$ (161,617)	$ 5,080,746

With the completion of the San Francisco International Airport Extension in 2004, the District completed construction of Phase I of an extension program that added 38 miles of track and 10 new stations to the system. The District has now embarked in three expansion projects which include the East Contra Costa BART Extension (“eBART”) in Contra Costa County, the Oakland Airport Connector (“OAC”) in Alameda County and the Warm Springs Extension (“WSX”) also in Alameda County. The OAC Project is expected to be in revenue operation in 2013, the WSX Extension in 2014 and the eBART Extension in 2015.

On May 26, 2009, the Surplus Property Authority of Alameda County (“Alameda Authority”) conveyed to the District the ownership of a completed structured parking garage located at BART’s East Dublin/Pleasanton station. The new garage has an actual construction cost, as reported by its developer, of $39,413,000. The Alameda Authority was responsible for the construction of the garage including all planning, all financing and all environmental, engineering, feasibility and other studies. The Alameda Authority took responsibility on the construction of the garage in exchange for an option to purchase approximately seven acres of land owned by the District located to the north of BART’s East Dublin/Pleasanton station which is intended to be the site of a transit center which will include high-density housing and other transit-oriented uses suitable for a site adjacent to the station. The Alameda Authority also donated to the District approximately three acres of land upon which a portion of the garage was located, and an adjacent parcel of land of approximately eight acres with a total of established value of $10,235,000. The donated assets were booked as capital assets with a credit to capital contributions.

On June 30, 2009, the District took ownership of a new parking structure located in BART's Pleasant Hill station, from the Pleasant Hill BART Station Leasing Authority, as its full payment of a 99-year ground lease on certain real property owned by the District located in the same station. The new parking structure was recorded as a capital asset at a value of $51,236,000, which is its final construction cost as reported by its developer, with a credit to deferred revenue. (Note 16).

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $884,558,000 at June 30, 2009, and $647,751,000 in 2008.

6. Accounts Payable and Other Liabilities

The District reports the following aggregated payables as accounts payable and other liabilities in the statements of net assets as of June 30, 2009 and 2008 (dollar amounts in thousands):

	2009	2008
Payable to vendors and contractors	$ 99,668	$ 98,758
Employee salaries and benefits	114,438	102,166
Accrued interest payable	28,766	29,479
Liabilities at the end of year	242,872	230,403
Less noncurrent portion	(42,686)	(39,699)
Net current portion	$ 200,186	$ 190,704

7. Long-Term Debt

Long-term debt activity for the year ended June 30, 2009 is summarized as follows (dollar amounts in thousands):

	2008	Additions/ Accretion	Payments/ Amortization	2009
1990 Sales Tax Revenue Refunding Bonds	$ 28,775	$ -	$ -	$ 28,775
1998 Sales Tax Revenue Bonds	157,550	-	(5,895)	151,655
2001 Sales Tax Revenue Bonds	43,765	-	-	43,765
2005 Sales Tax Revenue Refunding Bonds	325,790	-	(14,295)	311,495
2006 Sales Tax Revenue Bonds	64,915	-	-	64,915
2006 Sales Tax Revenue Refunding Bonds	107,930	-	(190)	107,740
Construction Loans	130,500	-	(5,000)	125,500
Lease/Leaseback Obligation	103,643	-	(712)	102,931
2002 SFO Extension Premium Fare Bonds	55,595	-	(640)	54,955
2005 General Obligation Bonds	67,320	-	(25,960)	41,360
2007 General Obligation Bonds	400,000	-	-	400,000
	1,485,783	-	(52,692)	1,433,091
Add (less):				
Accumulated Accretion on Lease/Leaseback Obligation	20,981	8,550	(6,586)	22,945
Debt related items*	992	-	169	1,161
Long-term debt net of accumulated accretion and debt related items	1,507,756	$ 8,550	$ (59,109)	1,457,197
Less: current portion of long-term debt	(59,279)			(75,149)
Net long-term debt	$ 1,448,477			$ 1,382,048

* Debt related items consist of deferred amounts on refundings, discounts and premiums.

Long-term debt activity for the year ended June 30, 2008 is summarized as follows (dollar amounts in thousands):

	2007	Additions/ Accretion	Payments/ Amortization	2008
1990 Sales Tax Revenue Refunding Bonds	$ 28,775	$ -	$ -	$ 28,775
1998 Sales Tax Revenue Bonds	163,090	-	(5,540)	157,550
2001 Sales Tax Revenue Bonds	43,765	-	-	43,765
2005 Sales Tax Revenue Refunding Bonds	339,440	-	(13,650)	325,790
2006 Sales Tax Revenue Bonds	64,915	-	-	64,915
2006 Sales Tax Revenue Refunding Bonds	108,110	-	(180)	107,930
Construction Loans	135,500	-	(5,000)	130,500
Lease/Leaseback Obligation	111,426	-	(7,783)	103,643
2002 SFO Extension Premium Fare Bonds	56,165	-	(570)	55,595
2005 General Obligation Bonds	87,185	-	(19,865)	67,320
2007 General Obligation Bonds	-	400,000	-	400,000
	1,138,371	400,000	(52,588)	1,485,783
Add (less):				
Accumulated Accretion on Lease/Leaseback Obligation	17,269	8,741	(5,029)	20,981
Debt related items*	(11,376)	12,335	33	992
Long-term debt net of accumulated accretion and debt related items	1,144,264	$ 421,076	$ (57,584)	1,507,756
Less: current portion of long-term debt	(57,584)			(59,279)
Net long-term debt	$ 1,086,680			$ 1,448,477

* Debt related items consist of deferred amounts on refundings, discounts and premiums.

1990 Sales Tax Revenue Refunding Bonds (the 1990 Bonds)
In July 1990, the District issued sales tax revenue refunding bonds totaling $158,478,000 to refund and defease $141,045,000 outstanding principal amount of the District's Sales Tax Revenue Bonds, Series 1985. The 1990 Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. At June 30, 2009, the 1990 Bonds consist of $28,775,000 in current interest serial bonds due from 2010 to 2011 with an interest rate of 6.75%.

1998 Sales Tax Revenue Bonds (the 1998 Bonds)
In March 1998, the District issued sales tax revenue bonds totaling $348,510,000 to provide funds for certain capital improvements, including rehabilitation of the District's vehicles and facilities, to repay obligations of approximately $49,645,000 related to a lease of certain telecommunications equipment, and to refund certain outstanding bonds with principal amounts of $155,115,000 to achieve debt service savings. The 1998 Bonds are special obligations of the District payable from and collateralized by a pledge of sales tax revenues. In August 2005, a portion of the 1998 Bonds with an aggregate principal amount of $155,650,000 were refunded from the proceeds of the 2005 Bonds. At June 30, 2009, the 1998 Bonds consist of $31,825,000 in serial bonds due from 2010 to 2018 with interest rates ranging from 5.25% to 5.50%, a $79,105,000 term bond due July 1, 2023 with an interest rate of 4.75% and a $40,725,000 term bond due July 1, 2028 with an interest rate of 5%. The District is

required to make sinking fund payments on the term bond due July 1, 2023 beginning on July 1, 2019 and on the term bond due July 1, 2028 beginning on July 1, 2024. In addition, the 1998 bonds maturing after June 30, 2009 may be redeemed prior to their respective maturities 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. The 2001 Bonds are special obligations of the District payable from and secured by a pledge of sales tax revenues. In August 2005, 2001 Bonds with principal amounts totaling $19,640,000 were refunded from the proceeds of the 2005 Bonds. Another refunding of the 2001 Bonds occurred in July 2006 when 2001 Bonds with principal amounts totaling $102,560,000 were refunded from the proceeds of the 2006 Refunding Bonds. At June 30, 2009, the 2001 Bonds consist of $15,310,000 in serial bonds due from 2012 to 2021 with interest rates ranging from 4.375% to 5.250%, a $7,225,000 term bond due July 1, 2026 with an interest rate of 5%, a $9,275,000 term bond due July 1, 2031 with an interest rate of 5%, and a $11,955,000 term bond due July 1, 2036 with an interest rate of 5.125%. The District is required to make sinking fund payments on the term bond due July 1, 2026 beginning on July 1, 2022, on the term bond due July 1, 2031 beginning July 1, 2027, and on the term bond due on July 1, 2036 beginning on July 1, 2032. In addition, the 2001 Bonds maturing on or after July 1, 2012 may be redeemed prior to their respective stated maturities, at the option of the District, as a whole or in part, on any date on or after July 1, 2011, at the principal amount called for redemption plus interest accrued thereon to the date fixed for redemption without premium.

2005 Sales Tax Revenue Refunding Bonds (the 2005 Bonds)
In August 2005, the District issued the Sales Tax Revenue Bonds, Refunding Series 2005A totaling $352,095,000. The 2005 Bonds were used to advance refund $349,925,000 in aggregate principal amount of sales tax revenue bonds related to the Sales Tax Revenue Bonds, Series 1995, 1998, 1999, and 2001. The 2005 Bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2009, the 2005 Bonds consist of $222,375,000 in serial bonds due from 2009 to 2026 with interest rates ranging from 3.25% to 5.00%, two 5.00% term bonds in the amounts of $55,685,000 and $31,785,000 due in 2030 and 2034, respectively, and one 4.50% term bond for $1,650,000 due in 2030.

2006 Sales Tax Revenue Bonds (the 2006 Bonds)
In June 2006, the District issued sales tax revenue bonds with an aggregate principal amount of $64,915,000 to finance a portion of the cost of construction of a new transit station, the West Dublin/Pleasanton Station including two parking facilities, pedestrian bridges, a bus intermodal facility and related improvements. The 2006 Bonds are special obligations of the District payable from and secured by a pledge of sales tax revenues. At June 30, 2009, the 2006 Bonds outstanding consist of $20,110,000 in serial bonds due from 2014 to 2026 with interest rates ranging from 4.0% to 4.625%, $17,995,000 in term bonds due July 1, 2031 with 5.0% interest rate and $26,810,000 in term bonds due July 1, 2036 at 5.0% interest rate. The term bonds are subject to mandatory sinking account payments beginning in 2027 for the term bonds due in 2031 and 2032 for the term bonds due in 2036.

2006 Sales Tax Revenue Refunding Bonds (the 2006 Refunding Bonds)

On November 30, 2006, the District issued the Sales Tax Revenue Bonds, Refunding Series 2006A, with a principal amount of $108,110,000 to advance refund a portion of the 2001 Bonds with an aggregate principal amount of $102,560,000. The 2006 Refunding Bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues. At June 30, 2009, the 2006 Refunding Bonds consist of serial bonds amounting to $53,170,000 with interest rates ranging from 4.0% to 5.0%, and term bonds totaling $54,570,000 of various maturity dates from 2029 to 2036 with an interest rate of 4.25%. The term bonds are subject to redemption in part, by lot, from Mandatory Sinking Account Payments required by the Indenture on certain dates, at the principal amount of the 2006 Refunding Bonds to be redeemed plus accrued interest, if any, to the redemption date.

Construction Loans

In March 1999, the District, MTC and San Mateo County Transit District (“SamTrans”) entered into a Memorandum of Understanding (“MOU”), which provided additional funds for the SFO Extension project in the form of construction loans from each agency.

As of June 30, 2009, the construction loans consist of funds received for the SFO Extension project costs from SamTrans for $72,000,000 and MTC for $16,500,000 and $37,000,000 from MTC for the project’s temporary cash requirements. The District provided $50,000,000 of its own funds to assist with the financing of the SFO Extension project costs. The terms and conditions of the MOU provide that the loans for project costs will be repaid, without interest, from the future net operating surplus generated by the SFO Extension. Such repayments of the loans for project costs from SamTrans and MTC totaling $88,500,000 plus reimbursement of the District’s $50,000,000, will commence after SamTrans’ capital contribution to the District’s Warm Springs Extension project is fully paid. MTC’s loan for the project’s temporary cash requirements of $37,000,000 is repaid from the District’s general funds amortized over a nine-year period ending in June 2015, with a 3% simple interest rate.

Lease/Leaseback Obligation

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

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

Under the terms of the agreement, if the credit rating of the Payment Undertaker falls below Baa1 for Moody’s Investor or BBB+ for Standard & Poor’s, the District will be required to replace the Payment Undertaker with a AAA Moody’s Investor and Standard & Poor’s rated entity. Failure to replace the Payment Undertaker will result in a default penalty. As of June 30, 2009, the Payment Undertaker's credit rating was A3 for Moody's Investor and A- for Standard & Poor's.

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, including the accretion of interest, are as follows (dollar amounts in thousands):

	2009	2008
Long-term debt at beginning of year	$ 124,624	$ 128,695
Interest expense incurred during the year	8,550	8,741
Amortization of principal	(712)	(7,783)
Amortization of accumulated accretion	(6,586)	(5,029)
Total long-term debt at end of year	125,876	124,624
Lease amortization in one year	(23,709)	(7,298)
Net long-term debt at end of year	$ 102,167	$ 117,326

2002 SFO Extension Premium Fare Bonds (the Airport Premium Fare Bonds)
On October 1, 2002, the Association of Bay Area Governments ("ABAG") issued BART SFO Extension Bonds ("Airport Premium Fare Bonds"), 2002 Series, in the amount of $56,715,000. The Airport Premium Fare Bonds were issued for the benefit of the District's SFO Extension project. The proceeds were used to finance a portion of the costs of the SFO Extension project, including all system-wide and associated improvements and expenditures related to the extension. The Airport Premium Fare Bonds are limited obligations of ABAG payable solely from and collateralized solely by amounts received from the District pursuant to a Pledge and Contribution Agreement, dated October 1, 2002, between ABAG and the District. The Airport Premium Fare Bonds are not a general obligation of ABAG. The District's obligation to make payments under the Pledge and Contribution Agreement is limited to and payable solely from and collateralized solely by a pledge of the premium fare imposed and collected by the District from passengers who board or depart the District's rapid transit system at the San Francisco International Airport station. The District's obligation to make such payments under the Pledge and Contribution Agreement is not a general obligation of the District. The payment of the principal and interest when due are insured by a financial guaranty insurance policy issued by an insurance company. At June 30, 2009, the 2002 Airport Premium Fare Bonds consist of $19,755,000 in serial bonds due from 2009 to 2022 with interest rates ranging from 3.00% to 5.00%, a $11,230,000 term bond due August 1, 2026 with an interest rate of 5.00%, and a $23,970,000 term bond due August 1, 2032 with an interest rate of 5.00%. The District is required to make sinking fund payments on the term bond due August 1, 2026 beginning on August 1, 2023 and on the term bond due August 1, 2032 beginning on August 1, 2027.

2005 General Obligation Bonds (the 2005 GO Bonds)
In May 2005, the District issued the General Obligation Bonds (Elections 2004), 2005 Series A with an aggregate principal amount of $100,000,000. The 2005 GO Bonds constitute a portion of the total authorized amount of $980,000,000 of general obligation bonds of the District duly authorized by at least two-thirds of the qualified voters of the District voting on a ballot measure ("Measure AA") at an election held on November 2, 2004. The 2005 GO Bonds constitute the first issue of general obligation bonds being issued pursuant to the Measure AA authorization. The 2005 GO Bonds were issued to finance earthquake safety improvements to BART facilities, including aerial trackway structures, underground trackway structures, including the Transbay Tube, and at-grade trackway structures, stations, and administrative, maintenance, and operations facilities and to finance additional retrofits to facilitate a rapid return to service after an earthquake or other disasters. The 2005 GO Bonds are

general obligations of the District, payable from and secured solely by ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except for certain personal property which is taxable at limited rates) levied in Alameda and Contra Costa Counties and the City and County of San Francisco. No other revenues of the District are pledged to the payment of the 2005 GO Bonds. At June 30, 2009, the 2005 GO Bonds consist of $21,745,000 in serial bonds due from 2009 to 2026 with interest ranging from 3.00% to 5.00%, a $7,720,000 term bond at 4.50% due in 2030 and a $11,895,000 term bond at 5.00% due in 2035. The District is required to make sinking fund payments on the term bond due in 2030 beginning in 2027 and on the term bond due in 2035 beginning in 2031.

2007 General Obligation Bonds (the 2007 GO Bonds)

On July 25, 2007, the District issued the General Obligation Bonds (Election of 2004), 2007 Series B with a principal amount of $400,000,000. The 2007 GO Bonds constitute the second issue of general obligation bonds being issued pursuant to the Measure AA authorization as discussed in the preceding paragraph regarding the 2005 GO Bonds. Similar to the 2005 GO Bonds, the 2007 GO Bonds were issued to finance earthquake safety improvements to BART facilities in the three BART Counties, including strengthening tunnels, bridges, overhead tracks and the underwater Transbay Tube. The 2007 GO Bonds are general obligations of the District payable from and secured solely by ad valorem taxes upon all property subject to taxation by the District levied in Alameda and Contra Costa Counties and the City and County of San Francisco. No other revenues of the District are pledged to the payment of the 2007 GO Bonds. At June 30, 2009, the 2007 GO Bonds consist of $135,550,000 in serial bonds due from 2009 to 2027 with interest rates ranging from 3.6% to 5.0%, and three term bonds totaling $264,450,00 due in 2032, 2035 and 2037 with interest rates ranging from 4.75% to 5.0%. The bonds maturing in 2032, 2035 and 2037 are subject to mandatory sinking fund redemptions starting in 2028, 2033 and 2036, respectively.

After the issuance of the 2005 and the 2007 GO Bonds, the remaining General Obligation Bonds that can be issued by the District as authorized under Measure AA is $480,000,000.

Defeased Bonds

On various dates, the District issued bonds to refund certain outstanding sales tax revenue bonds previously issued by the District In August 2005, the District refunded $349,925,000 aggregate principal amount of bonds outstanding from the proceeds of the 2005 Bonds. The bonds refunded in August 2005, consisted of $45,275,000 of the 1995 Bonds, $155,650,000 of the 1998 Bonds, $129,360,000 of the 1999 Bonds and $19,640,000 of the 2001 Bonds. In November 2006, a portion of the 2001 Bonds with an aggregate principal amount of $102,560,000 was advanced refunded from the proceeds of the 2006 Refunding Bonds.

On all defeasances, the District placed in irrevocable trusts the required amounts to pay the future debt service payments on the defeased bonds. The advance refunding met the requirement of the in-substance debt defeasance, and the defeased bonds were removed from the District's long-term debt. Accordingly the trust accounts assets and liabilities for the defeased bonds are not included in the District's financial statements.

The outstanding principal balance of the defeased bonds as of June 30, 2009 and 2008 is $245,205,000 and $387,195,000, respectively and consists of (dollar amounts in thousands):

	2009	2008
August 2005 defeasance	$ 142,645	$ 284,635
November 2006 defeasance	102,560	102,560
	$ 245,205	$ 387,195

The District deferred, and amortized as a component of interest, the difference between the reacquisition price and the net carrying amount of the old debts and amortized over the life of the defeased bonds. The unamortized balance of deferred loss on early debt retirement is $28,265,000 at June 30, 2009 and $29,596,000 on June 30, 2008. Amortization expense on these deferred charges was $1,330,000 in fiscal year 2009 and 2008.

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, 2009, the District has recorded an estimated arbitrage liability amounting to $1,677,000 and $1,589,000 in 2008, which is included in accounts payable and other liabilities in the statements of net assets.

Sales Tax Revenue Bonds

The District issues sales tax revenue bonds primarily to finance a portion of its capital projects. The sales tax revenue bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues derived from a seventy-five percent (75%) portion of a transactions and use tax levied by the District in Alameda and Contra Costa Counties and the City and County of San Francisco in an amount equal to one-half of one percent (0.5%) of gross retail receipts. The sales tax revenue bonds outstanding as of June 30, 2009 consist of the 1990 Bonds, the 1998 Bonds, the 2001 Bonds, the 2005 Bonds, the 2006 Bonds and the 2006 Refunding Bonds. Interest on the sales tax revenue bonds are payable on January 1 and July 1 of each year, and the principal on July 1 of the scheduled year until 2036. The total principal and interest remaining on these sales tax revenue bonds is $1,165,024,000 which is 17% of the total projected sales tax revenues of $6,943,480,000. The pledged sales tax revenues recognized in fiscal year 2009 was $184,286,000 ($202,632,000 in fiscal year 2008) as against a total debt service payment of $57,327,000 in fiscal year 2009 ($57,145,000 in fiscal year 2008).

Premium Fare Bonds

The SFO Airport premium fare bonds were issued in 2002 to provide financing for a portion of the construction costs of the SFO Extension project, which was completed and started revenue operations in 2004. The premium fare bonds are payable from and secured by a pledge of premium fares generated by BART's SFO station. Interests on the premium fare bonds are payable on February 1 and August 1 of each year, and the principal on August 1 of the scheduled year until 2032. The total principal and interest remaining on the premium fare bonds is $96,475,000 which is 27% of the total projected SFO station premium fare revenues of $363,575,000. The pledged SFO station premium fare revenues recognized in fiscal year 2009 was $5,850,000 ($5,102,000 in fiscal year 2008) as against a total debt service payment of $3,333,000 in fiscal year 2009 ($3,279,00 in fiscal year 2008).

Debt Repayments

The following is a schedule of long-term debt principal and interest payments required as of June 30, 2009 (dollar amounts in thousands):

	Sales Tax Revenue Bonds											
	1990 Bonds		1998 Bonds		2001 Bonds		2005 Refunding Bonds		2006 Bonds		2006 Refunding Bonds	
Year ending June 30:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ -	$ 1,942	$ 6,205	$ 7,139	$ -	$ 2,200	$ 14,965	$ 14,227	$ -	$ 3,131	$ 195	$ 4,635
2011	13,870	1,006	1,625	7,053	-	2,200	6,840	14,005	-	3,131	205	4,627
2012	14,905	-	3,325	6,879	-	2,200	8,225	13,593	-	3,131	210	4,619
2013		-	3,675	6,686	2,020	2,111	9,010	13,242	-	3,131	5,885	4,324
2014	-	-	1,910	6,586	2,120	2,005	12,630	12,651	-	3,131	2,190	4,215
2015-2019	-	-	15,085	30,825	7,625	8,670	78,970	52,464	3,680	15,321	7,230	19,970
2020-2024	-	-	79,105	18,815	6,220	7,172	33,535	38,758	8,830	13,795	18,950	17,135
2025-2029	-	-	40,725	4,272	7,985	5,362	101,805	21,849	7,600	11,104	23,395	12,588
2030-2034	-	-	-	-	10,260	3,028	36,975	6,003	17,995	6,615	28,930	6,930
2035-2039	-	-	-	-	7,535	399	8,540	-	26,810	908	20,550	898
Thereafter	-	-	-	-	-	-	-	-	-	-	-	-
	$ 28,775	$ 2,948	$ 151,655	$ 88,255	$ 43,765	$ 35,346	$ 311,495	$ 186,791	$ 64,915	$ 63,397	$ 107,740	$ 79,942

	Construction Loans		Lease/ Leaseback Obligation	
Year ending June 30:	Principal	Interest	Principal	Interest
2010	$ 8,000	$ 1,110	$ 17,086	$ 9,116
2011	8,000	870	5,192	2,923
2012	8,000	630	-	257
2013	8,000	390	-	508
2014	5,000	150	-	1,077
2015-2019	-	-	80,653	85,302
2020-2024	-	-	-	-
2025-2029	-	-	-	-
2030-2034	-	-	-	-
2035-2039	-	-	-	-
Thereafter	88,500	-	-	-
	$ 125,500	$ 3,150	$ 102,931	$ 99,182

	2002 SFO Extension Premium Fare Bonds		2005 General Obligation Bonds		2007 General Obligation Bonds		Total	
Year ending June 30:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 715	$ 2,672	$ 870	$ 1,856	$ 20,490	$ 18,556	$ 68,526	$ 66,584
2011	795	2,647	895	1,829	5,240	18,301	42,662	58,591
2012	875	2,617	920	1,801	405	18,270	36,865	53,996
2013	965	2,583	950	1,770	900	18,237	31,405	52,983
2014	1,055	2,532	980	1,737	1,435	18,182	27,320	52,265
2015-2019	7,080	11,669	5,460	8,090	16,855	89,189	222,638	321,499
2020-2024	10,775	9,381	6,750	6,677	38,350	82,603	202,515	194,336
2025-2029	15,665	6,001	8,610	4,752	68,545	68,844	274,330	134,772
2030-2034	17,030	1,419	10,820	2,442	111,260	45,770	233,270	72,207
2035-2039	-	-	5,105	152	136,520	11,264	205,060	13,621
Thereafter	-	-	-	-	-	-	88,500	-
	$ 54,955	$ 41,520	$ 41,360	$ 31,105	$ 400,000	$ 389,216	$ 1,433,091	$ 1,020,853

8. Risk Management

The District is partially self-insured for workers' compensation, public liability and property damage claims. The self-insured retention for workers' compensation is $4,000,000 per accident and the limit of liability is $10,000,000. The self-insured retention for public liability and property damage is $5,000,000 for any one occurrence. Claims in excess of self-insured retentions are covered up to a total of $95,000,000 by insurance policies. There have been no settlement amounts during the past three years that have exceeded the District's insurance coverage.

The self-insurance programs are administered by independent claims adjustment firms. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities are discounted at a 3% rate, which was reduced from the 5% rate used in fiscal year 2008, and are based, in part, upon the independent adjustment firms' estimate of reserves necessary for the settlement of outstanding claims and related administrative costs, and include estimates of claims that have been incurred but not yet reported, including loss adjustment expenses. Such reserves are estimated by professional actuaries through March 31 and are subject to periodic adjustments as conditions warrant.

The estimated liability for insurance claims at June 30, 2009 is believed to be sufficient to cover any costs arising out of claims filed or to be filed for accidents occurring through that date. At June 30, 2009 and 2008, the estimated amounts of these liabilities were $29,370,000 and $28,246,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal years are as follows (dollar amounts in thousands):

	2009	2008
Liabilities at beginning of year	$ 28,246	$ 28,702
Current year claims and changes in estimates	9,267	8,741
Payments of claims	(8,143)	(9,197)
Liabilities at the end of year	29,370	28,246
Less current portion	(10,441)	(8,478)
Net noncurrent portion	$ 18,929	$ 19,768

9. Federal Capital Contributions and Operating Financial Assistance

The U.S. Department of Transportation and other Federal agencies provide capital funding to the District for construction projects, planning and technical assistance. Cumulative information for grants which were active during the years ended June 30, 2009 and 2008 are summarized as follows (dollar amounts in thousands):

	2009	2008
Total approved project costs	$ 2,267,335	$ 2,120,813
Cumulative amounts of project costs incurred and earned	$ 1,155,690	$ 1,123,948
Less: approved federal allocations received	(1,139,698)	(1,113,839)
Capital grants receivable - Federal	$ 15,992	$ 10,109

The District's fleet replacement program consisting of construction for the A, B, C1 and C2 fleet replacement is scheduled to begin in 2013. To set aside funding for this future need, the District and MTC, on May 24, 2006, entered into the BART Car Replacement Funding Exchange Agreement. Under the agreement, MTC agrees to program federal funds to eligible BART projects that are ready to be delivered within the year of MTC's programming action. In exchange for MTC programming funds for ready-to-go BART projects, the District will deposit an equal amount of local unrestricted funds into a restricted account established to fund BART's car replacement program. MTC is the exclusive administrator of the restricted account and any withdrawal of funds from the account requires prior approval from the MTC Commission and the District's Board. In accordance with the agreement, MTC allocated Federal Section 5307 Grants for $22,682,000 in fiscal year 2009 and $22,681,000 in fiscal year 2008 to fund the District's preventive maintenance expenses. Accordingly, the District remitted to MTC the equivalent amount of its own funds, which was deposited by MTC to the restricted account. The federal grant is shown as nonoperating revenue – operating financial assistance and the District's remittance to MTC is shown as nonoperating expense in the District's financial statements.

The restricted account for BART's car replacement program, which is excluded from the District's financial statements, showed a total cash and investment balance, at market value, of $71,024,000 as of June 30, 2009 and $47,234,000 as of June 30, 2008.

10. State and Local Operating and Capital Financial Assistance

The District is eligible to receive local operating and capital assistance from the Transportation Development Act Funds ("TDA"). There was no TDA operating or capital assistance received in fiscal years 2009 or 2008.

The District may be entitled to receive state operating and capital assistance from the State Transit Assistance Funds ("STA"). These funds are allocated by MTC based on the ratio of the District's transit operation revenue and local support to the revenue and local support of all state transit agencies. The District received STA operating allocations of $801,000 in fiscal year 2009, and $23,112,000 in fiscal year 2008. The District also received STA capital allocations amounting to $1,170,000 awarded in fiscal year 2004, $150,000 awarded in fiscal year 2008 and $227,000 awarded in fiscal year 2009 of which $228,000 was earned during fiscal year 2009 and $181,000 in fiscal year 2008.

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. In fiscal year 2009, the District's revenues that relate to the Measure B funds were $1,494,000 ($1,644,000 in fiscal year 2008) for the annual assistance for paratransit operating funds and $69,000 (none in fiscal year 2008) for a new rider care specialist position in the paratransit broker's office to address complex rider problems, initiate education and outreach programs, improve new rider orientation and improve service planning.

On February 28, 2007, the District, SamTrans, and MTC entered into a Tri-Party Financial Agreement establishing the new operational and financial arrangement regarding the BART San Francisco International Airport Extension. To fund the operating costs of the SFO Extension, the agreement provided that (1) the District will receive up-front funding of $24,000,000 from MTC and $32,000,000 from SamTrans from their shares of Proposition 1B funds; (2) the District will also receive 2% of the San Mateo County half cent sales tax, Measure A, which was reauthorized by the voters of San Mateo County in 2004, for 25 years beginning in fiscal year 2009; this amount is currently equal to approximately $1,200,000 per year; and (3) MTC shall allocate to the District additional STA revenue-based funds beginning in fiscal year 2009, which would otherwise be available for allocation to SamTrans as a result of the completion of the Traffic Congestion Relief Program projects, in an amount of $801,000 annually. The above funds will be used first to cover any operating deficit on the SFO Extension and then to complete SamTrans' funding commitment of $145,000,000 to the District's Warm Springs Extension Project. In accordance with the Tri-Party Financial Agreement, the District recognized contributions in fiscal year 2009, amounting to $521,000 ($8,069,000 in fiscal year 2008) from SamTrans and $801,000 ($1,386,000 in fiscal year 2008) from MTC representing STA funds reallocated from SamTrans to BART. As of June 30, 2009, the balance of the reserve account is as follows (dollar amounts in thousands):

	2009	2008
Reserve account at beginning of year	$ 3,476	$ -
Received	540	8,970
Accrued	782	485
Add interest earnings	13	4
Total	$ 4,811	$ 9,459
Less: amount used to cover SFO Extension operating shortfall	(2,802)	(5,983)
Reserve account at end of year	$ 2,009	$ 3,476

The upfront funding of $24,000,000 from MTC was allocated to the District in 2008 in the form of a capital grant funded by Regional Measure 2 (RM2) revenues. For the purpose of the Tri-Party Agreement, the District is required to make a deposit to the reserve account in an amount equal to the capital reimbursement received from MTC/RM2 revenues. There was no capital reimbursement received from the MTC/RM2 allocations in fiscal years 2009 and 2008, hence the District did not make any deposits to the reserve account. The amount of $5,504,000 advanced by the District to cover a portion of the SFO Extension operating shortfall in fiscal year 2007 will be reimbursed to the District from the reserve account when cash is received from the MTC/RM2 revenues.

PTMISEA Grants

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, includes a program of funding in the amount of $4 billion to be deposited in the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA). Of this amount, $3.6 billion in the PTMISEA is available to project sponsors in California for allocation to eligible public transportation projects.

The District had received a total $71,287,000 in PTMISEA grant funds - $6,090,000 in fiscal year 2009 and $65,197,000 in fiscal year 2008 – to fund various BART capital projects. The grants received in fiscal year 2009 are in the form of cash for $5,375,000 and a reimbursement grant for $715,000 and all cash for the fiscal year 2008 grant.

The following schedules show the changes in activities related to the PTMISEA grant funds during the fiscal years 2009 and 2008 (dollar amounts in thousands):

2009	**Grant Fund Balance at Beginning of Year**	**Grants Received**	**Project Costs Incurred**	**Grant Fund Balance at End of Year**
eBART Extension	$ 2,998	$ -	$ 2,765	$ 233
Ashby Elevator	2,000	-	121	1,879
Station Modernization	35,595	-	5,029	30,566
Seismic Retrofit	24,000	-	6,329	17,671
Critical Infrastructure Barriers	-	5,375	-	5,375
Stations Way Finding Signs	-	715	36	679
	$ 64,593	$ 6,090	$ 14,280	$ 56,403

2008	**Grant Fund Balance at Beginning of Year**	**Grants Received**	**Project Costs Incurred**	**Grant Fund Balance at End of Year**
eBART Extension	$ -	$ 3,000	$ 2	$ 2,998
Ashby Elevator	-	2,000	-	2,000
Station Modernization	-	36,197	602	35,595
Seismic Retrofit	-	24,000	-	24,000
	$ -	$ 65,197	$ 604	$ 64,593

As of June 30, 2009 and 2008, the cash available, which includes the unused portion of grant funds received in cash and the associated interest earnings (excluding the remaining grant allocation of $679,000) are shown on the statements of net assets as a component of deferred revenues as follows (dollar amounts in thousands):

	2009	2008
Cash available, end of year	$ 56,559	$ 64,754
Less noncurrent portion	(35,544)	(39,865)
Net current portion	$ 21,015	$ 24,889

At the end of fiscal year 2009, the PTMISEA funds had earned a total interest income of $836,000 - $675,000 in fiscal year 2009 and $161,000 in fiscal year 2008.

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 2,626 local public agencies and school districts within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and District contractual agreements.

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

Funding Policy and Annual Pension Cost

The Plan's funding policy provides for periodic District contributions at actuarially-determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by contractual agreements. The individual entry age normal cost method is used to determine the normal cost. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age. Beginning on July 1, 1997, the unfunded actuarial accrued surplus or liability (past service liability) is amortized as a level percentage of future covered payroll over a closed period of 13 years for the Miscellaneous Plan and the Safety Plan.

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2009 and 2008 was $242,071,000 and $233,027,000, respectively. The District's 2009 and 2008 payroll for all employees was $278,804,000 and $266,229,000, 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.

The annual required contributions for fiscal year 2009 and 2008 were determined by an actuarial valuation of the Plans as of June 30, 2006 and 2005, respectively. The contribution rates were 9.741% in 2009 and 9.850% in 2008 for the Miscellaneous Plan and 32.977% in 2009 and 32.249% in 2008 for the Safety Plan.

The three-year trend information for the Fund of the actuarially required employer contribution is as follows (dollar amounts in thousands):

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed (%)	Net Pension Obligation
Miscellaneous Plan:	June 30, 2007	$ 19,382	100	$ -
	June 30, 2008	21,236	100	-
	June 30, 2009	21,663	100	-
	June 30, 2007	4,786	100	-
Safety Plan:	June 30, 2008	5,622	100	-
	June 30, 2009	6,052	100	-

Funded Status and Funding Progress of the Miscellaneous Plan

As of June 30, 2008, based on CalPERS most recent actuarial report, the Miscellaneous Plan is 97.0% funded. The actuarial accrued liability for benefits was $1,391,792,000, and the actuarial value of assets was $1,349,563,000, resulting in an unfunded actuarial accrued liability (UAAL) of $42,229,000. The covered payroll (annual payroll of active miscellaneous employees covered by the plan) was $218,889,000, and the ratio of the UAAL to the covered payroll was 19.3%.

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI), following the Notes to Financial Statements, presents three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress of the Safety Plan

As of June 30, 2008, based on CalPERS most recent actuarial report, the Safety Plan is 79.9% funded. The actuarial accrued liability for benefits was $164,993,000, and the actuarial value of assets was $131,846,000, resulting in an unfunded actuarial accrued liability (UAAL) of $33,147,000. The covered payroll (annual payroll of active safety employees covered by the plan) was $17,721,000, and the ratio of the UAAL to the covered payroll was 187.0%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Assumptions and Methods

CalPERS uses the rate stabilization methodologies in its actuarial valuations which have been shown to be very effective in mitigating rate volatility. A summary of principal assumptions and methods used by CalPERS to determine the District's annual required contributions to the Miscellaneous Plan and Safety Plan is shown below:

Valuation Date	June 30, 2008	June 30, 2006	June 30, 2005
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Average remaining period	Closed; 13 years as of the valuation date for Miscellaneous Plan; and 22 years for the Safety Plan	Closed; 19 years as of the valuation date for Miscellaneous Plan; and 24 years for the Safety Plan	Closed; 21 years as of the valuation date for Miscellaneous Plan; and 24 years for the Safety Plan
Asset valuation method	15 year smoothed market	15 year smoothed market	15 year smoothed market
Investment rate of return	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected salary increases	3.25% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan; and 3.25% to 13.15% for the Safety Plan	3.25% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan; and 3.25% to 13.15% for the Safety Plan	3.25% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan; and 3.25% to 13.15% for the Safety Plan
Inflation	3.00%	3.00%	3.00%
Payroll growth	3.25%	3.25%	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

12. Money Purchase Pension Plan

Most District employees participate in the Money Purchase Pension Plan, which is a supplemental retirement defined contribution plan. In January 1981, the District's employees elected to withdraw from the Federal Social Security System ("FICA") and established the Money Purchase Pension Plan. The District contributes an amount equal to 6.65% of eligible employees' annual compensation (up to $29,700 after deducting the first $133 paid during each month) up to a maximum annual contribution of $1,868. The non-represented employees receive an additional contribution equal to 1.627% of their annual compensation. The annual compensation limit subject to the additional contribution is established by the Internal Revenue Code Section 401(a) (17). 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, 2009 and 2008 were $6,807,000 and $6,811,000, respectively. The Money Purchase Pension Plan assets at June 30, 2009 and 2008 (excluded from the accompanying financial statements) per the plan administrator's unaudited report were $222,368,000 and $260,878,000, respectively. At June 30, 2009, there were approximately 156 (256 in 2008) participants receiving payments under this plan.

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

13. Other Postemployment Benefits

In addition to the retirement benefits described in Notes 11 and 12, and specified in the District's contractual agreements, the District provides other postemployment benefits ("OPEB") to employees, which include medical benefits to retirees and surviving spouses, retiree life insurance, survivor dental and vision benefits, and medical benefits to survivors of active employees. Most employees who retire directly from the District or their surviving spouses are eligible for medical benefits 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.

In 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new GASB statement requires the District to change its accounting for OPEB from pay-as-you-go to an accrual basis. If an employer elects to fund its OPEB liability, GASB 45 requires that for contributions to be recognized as an offset to the employer's actuarial required contribution, the contributions must be paid out in benefits or irrevocably transferred to a trust or an equivalent arrangement, and legally protected from creditors of the employer. The District implemented 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 ("retiree medical 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. The Trust issues a publicly available audited financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing to Retiree Health Benefit Trust, San Francisco Bay Area Rapid Transit District, 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

Currently, the Trust covers the funding only for the "retiree medical benefits" which include retiree health medical benefits and the survivors benefits provided to widows and widowers of retirees. It does not fund the "additional OPEB" which include the retiree life insurance premiums and the survivors dental and vision benefits and the medical liability from survivors of active employees. The District has not yet made the decision whether the additional OPEB will be incorporated in the existing Trust or whether a new and separate trust will be established.

Basis of Accounting. The financial statements of the Trust are prepared using the accrual basis of accounting. Beginning with fiscal year 2007, the Trust implemented the GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which established the accounting and financial reporting standards for plans that provide OPEB. The Trust recognizes contributions from the District in accordance with the provisions contained on the District collective bargaining agreements, as described briefly in the following discussion.

Method Used to Value Investments. Investments are reported at fair value as determined by the financial institutions which have custody of the investments based on quoted market prices.

Funding Policy and Long Term Contract for Contributions. The District's current collective bargaining agreements with its unions ("CBA") describe the District's funding commitments to the Trust. Beginning fiscal year 2008, the District will fund the Trust with a "ramp up" (increasing) percentage of the "full" annual required contribution ("ARC") in addition to funding the pay-as-you-go amount outside of the Trust every year for the following six years. Including fiscal years 2007 and 2008, this "ramp-up" contribution funds an eight-year period covering fiscal years 2007 through 2013. The CBAs include the baseline "ramp-up" percentages, which is the minimum amount that the District is committed to contribute to the Trust during the "ramp-up" period. The District shall commission an actuarial study of the retiree medical insurance plan liabilities and funding needs, including the ARC, every year. The revised "ramp-up" percentage shall be the basis of the District's contribution to the Trust, except when it is less than the baseline "ramp-up" percentage. In addition, the District will, at a minimum, contribute into the Trust a lump sum make up payment no later than June 30, 2009, reflecting the amounts it would have contributed for fiscal years 2006 and 2007. The lump sum makeup payment is equal to the sum of 3.36% of fiscal year 2007 payroll and 3.22% of fiscal year 2006 payroll, which is actuarially calculated to be $14,629,000. Beginning fiscal year 2013, the District shall, at minimum, contribute to the Trust each pay period an amount equal to the full GASB compliant ARC. The CBAs further state that no retiree health insurance premiums will be paid from the Trust prior to July 1, 2013 and that effective July 1, 2013, the District shall direct the Trustee of the Trust to pay the premiums from the Trust.

Funded Status.

The actuarially calculated ARC for fiscal year 2009, as a percent of covered payroll for the year, are 16.83% for retiree medical benefits and 0.87% for additional OPEB, which amounted to $40,740,000 and $2,106,000, respectively. In fiscal year 2009, the District contributed cash to the Trust amounting to $24,940,000 for the retiree medical benefits and zero for the additional OPEB to partially fund the OPEB cost for the year. In fiscal year 2008, the District contributed cash to the Trust amounting to $8,136,000 for the retiree medical benefits and zero for the additional OPEB to partially fund the OPEB cost for the year. In addition, the District made payments in fiscal year 2009 on a pay-as-you-go basis, net of retirees' and surviving spouses' share, medical insurance premiums totaling $12,561,000 for 1,462 retirees and surviving spouses ($11,844,000 for 1,388 retirees and surviving spouses in fiscal year 2008) and life insurance premiums amounting to $58,000 ($57,000 in fiscal year 2008). The District does not charge any administration cost to the Trust. Currently, the retiree pays $81.95 per month and the survivor $15.00 per month for their share of the health care premium; the balance is paid by the District. The following tables show the components of the District's annual OPEB cost, the amount contributed to the Trust, pay-as-you-go payments and changes in the net OPEB obligation for fiscal years 2009 and 2008 (dollar amounts in thousands):

Retiree Medical Benefits

	2009	2008
Annual Required Contribution (ARC)	$ 40,740	$ 38,839
Interest on net OPEB obligation	1,273	-
Adjustments to ARC	(1,273)	-
Annual OPEB Cost	40,740	38,839
Contributions made	(37,501)	(19,979)
Increase in Net OPEB obligation	3,239	18,860
Net OPEB obligation, beginning of year	18,860	-
Net OPEB obligation, end of year	$ 22,099	$ 18,860

Additional OPEB

	2009	2008
Annual Required Contribution (ARC)	$ 2,106	$ 2,471
Interest on net OPEB obligation	103	-
Adjustments to ARC	(103)	-
Annual OPEB Cost	2,106	2,471
Contributions made	(154)	(57)
Increase in Net OPEB obligation	1,952	2,414
Net OPEB obligation, beginning of year	2,414	-
Net OPEB obligation, end of year	$ 4,366	$ 2,414

The total net OPEB obligation of $26,465,000 in fiscal year 2009 and $21,274,000 in fiscal year 2008 are shown on the statements of net assets as a component of accounts payable and other liabilities.

The two-year trend for the OPEB obligation of the actuarially required contribution is as follows (dollar amounts in thousands):

	Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Retiree Medical Benefits	June 30, 2008	$ 38,839	51%	$ 18,859
	June 30, 2009	40,741	92%	22,099
Additional OPEB	June 30, 2008	2,471	2%	2,414
	June 30, 2009	2,106	7%	4,366

At June 30, 2009, assets held in the Trust included investment in money market mutual funds, U.S. Treasury obligations, corporate obligations, foreign obligations, foreign stocks, equity mutual funds and domestic common stocks with an aggregate fair value of $66,743,000 ($54,879,000 in 2008). These investments are included in the District's financial statements and are restricted to use for payment of retiree medical benefits.

Funded Status and Funding Progress of the Retiree Medical Plan. As of June 30, 2008, based on Mercer's most recent actuarial report, the Retiree Medical Plan is 11.7% funded. The actuarial accrued liability for benefits was $413,300,000, and the actuarial value of assets was $48,500,000, resulting in an unfunded actuarial accrued liability (UAAL) of $364,900,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) was $238,800,000, and the ratio of the UAAL to the covered payroll was 152.8%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents the current year's and prior year's funded progress (since this is the second year GASB 45 was implemented) and will eventually present three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress of the Additional OPEB Plan. As of June 30, 2008, based on Mercer's most recent actuarial report, the Additional OPEB Plan is zero percent funded. The actuarial accrued liability for benefits was $20,600,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $20,600,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) was $238,800,000, and the ratio of the UAAL to the covered payroll was 8.6%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents the current year's and prior year's funded progress (since this is the second year GASB 45 was implemented) and will eventually present three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Assumptions and Methods

The latest OPEB actuarial valuation was performed by Mercer in January 2009 using District data as of June 30, 2008. A summary of principal assumptions and methods used by Mercer to determine the District's annual required contributions to the OPEB plans is shown below:

Valuation Date	June 30, 2008	June 30, 2007	June 30, 2006
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Closed, Level percent of payroll	Closed, Level percent of payroll	Closed, Level percent of payroll
Remaining amortization period	26 years	27 years	28 years
Asset valuation method	Market value	Market value	Market value
Discount rate	6.75% for the retiree medical plan; 4.25% for the additional OPEB	6.75% for the retiree medical plan; 4.25% for the additional OPEB	6.75% for the retiree medical plan; 3.50% for the additional OPEB
Projected salary increases	CalPERS assumptions from the June 30, 2004 pension valuation with a minimum increase of 3.75%	CalPERS assumptions from the June 30, 2004 pension valuation with a minimum increase of 3.75%	CalPERS assumptions from the June 30, 2004 pension valuation with a minimum increase of 3.75%
Inflation rate	3.00%	3.00%	3.00%
Payroll growth rate	3.75%	3.75%	3.75%
Health care cost trend rate for the first year	10.50%	10.50%	11.00%
Ultimate trend rate	5.00%	5.00%	5.00%
Year that rate reaches the ultimate rate	2024	2015	2015

14. Board of Directors' Expenses

Total Directors' expenses, consisting of travel and other business related expenses for the years ended June 30, 2009 and 2008 amounted to $38,000 and $36,000, respectively.

15. Transit Financing Authority

The Joint Exercise of Powers Agreement (the "Agreement"), dated August 1, 1991, between the District and MTC provided for the creation of the Transit Financing Authority (the "Authority"), a public instrumentality of the State of California. The initial term of the Agreement was for ten years, unless extended or earlier terminated. On May 1, 1998, the term of the Agreement was extended to August 1, 2010. The Authority was formed for the purpose of providing financing and contracting for public transit improvements, including the refinancing of prior indebtedness and acquiring, selling and financing public capital improvements, working capital, liability and other insurance needs, and for the specific purpose of assisting in financing the District's East-Bay and West-Bay extensions. The Authority's financial information is presented as a blended component unit of the District's financial statements because the Authority provides services almost exclusively to the District.

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

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

A summary of the amount and percentage of the Authority's total assets, total liabilities and total net assets as compared with the District is as follows (dollar amounts in thousands):

	2009	2008
Authority's total assets		
Amount	$ 53,500	$ 58,500
As a % of District's total assets	0.8%	0.9%
Authority's total liabilities		
Amount	$ 53,500	$ 58,500
As a % of District's total liabilties	2.8%	3.1%
Authority's total net assets		
Amount	$ -	$ -

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

16. Related Organizations and Joint Venture Projects

Capitol Corridor Joint Powers Authority

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

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

The District charged Capitol Corridor a total of $3,955,000 for marketing and administrative services during 2009 and $4,482,000 during 2008. In addition, Capitol Corridor reimburses the District for its advances for capital project expenditures and other operating expenses. Reimbursements for expenses incurred by the District on behalf of and in providing services to Capitol Corridor are netted against the corresponding expense in the statements of revenues, expenses and changes in net assets.

Unreimbursed expenses and capital project costs from Capitol Corridor amount to $3,856,000 and $2,384,000 as of June 30, 2009 and 2008, respectively. All unreimbursed expenses are included as current receivables and other assets in the statements of net assets. As the District has no ownership involvement or ongoing financial interest or responsibility in Capitol Corridor, its financial statements include only amounts related to the services it provides to Capitol Corridor.

Technology Reinvestment Project

In 1994, The District and the joint venture of Hughes Transportation Control Systems, Inc. (Hughes), and Morrison Knudsen Train Control, Inc. (HMK) entered into a memorandum of understanding (MOU) to form an alliance (Alliance) to develop a cost-effective, highly reliable and safe train control system for passenger and freight-carrying trains. The project is more commonly known as the Advanced Automatic Train Control (AATC) project. 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 February 1998, Harmon and the District executed Contract no. 49GB-110 and the document incorporated the MOU that was later amended in August 1998 to reflect the replacement of HMK by Harmon. In 2000, Harmon was purchased by GE Transportation Systems, and Harmon became known as GE Transportation Systems, Global Signaling.

The AATC project has three phases which are: Phase 1, the prototype phase, which demonstrates the feasibility of the technical concepts through a demonstration of the technology at BART's Hayward test track; Phase 2, the development phase, which implements the pilot system at two BART train stations and on ten control cars to demonstrate the safety of the system; and Phase 3, the implementation phase, which implements the AATC system on eight additional BART train stations and 289 control cars, including training of BART personnel, creation of manuals and supply of spare parts.

Phase 1 was completed in 1996, while work on Phase 2 and Phase 3 is still in progress. Phase 1 and Phase 2 were partially funded by the Technology Reinvestment Project managed by the Advanced Research Projects Agency (ARPA). The Alliance handled the disbursements for project costs paid out of the ARPA grant. The District's participation in Phase 1 and Phase 2 include in-kind contributions, which consisted primarily of cost of vehicles and infrastructure use and labor and other direct costs, totaling $25,848,000, of which $948,000 was reimbursed by the Alliance. Additional funding for Phase 2 and Phase 3 came from the federal allocations of $66,844,000, State grants of $4,728,000, local agency contributions of $2,393,000 and the District's own funds of $39,173,000. The total project expenditures through June 30, 2009 for Phase 2 and Phase 3 amount to $88,533,000 ($84,980,000 in 2008).

In June 2002, several issues that needed to be resolved to finish the project were discovered in the design. The contractor submitted notices of potential claim in April 2003. In June 2006, after over three years of unsuccessful negotiations on these claims, BART filed a Complaint with the United States District Court, Northern District of California for Rescission, Breach of Contract, Termination of Contract, Specific Performance and Declaratory Relief. Trial is set to start in August 2010.

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 (Note 10). The District has no equity interest in the Consortium.

Pleasant Hill BART Station Leasing Authority

In July 2004, the District, the County of Contra Costa ("County") and the Contra Costa County Redevelopment Agency ("Agency") entered into a Joint Exercise of Powers Agreement ("JPA Agreement") to create the Pleasant Hill BART Station Leasing Authority ("Pleasant Hill Authority"). The Pleasant Hill Authority was created as a means of accomplishing the cooperation and coordination among the three agencies to provide for the development of a transit center located in BART's Pleasant Hill station which will include residential rental and retail units. The Pleasant Hill Authority leased for a 99-year term expiring on May 14, 2105, a portion of the property owned by BART adjacent to the Pleasant Hill BART station as the transit center site. As of June 30, 2009, the District had received as ground lease payments for the full term of the lease, a cash base rent of $99 and a noncash base rent in the form of a newly constructed parking structure located at the Pleasant Hill BART station. The District accepted the completion of the new parking structure, and became its new owner, effective June 30, 2009. The new parking structure was recorded as a capital asset at a value of $51,236,000, which is its final construction cost as reported by its developer, and with a credit to deferred revenue.

The Pleasant Hill Authority is a public entity separate from any member and as such its debts, liabilities and obligations shall not be the debts, liabilities and obligations of any of the members. The governing body of the Pleasant Hill Authority is a Board of Directors consisting of four persons – one of each from the County and the Agency and two from the District.

17. Commitments and Contingencies

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

Lease Commitments
The District leases certain facilities under operating leases with original terms ranging from one to 50 years with options to renew.

Future minimum rental payments under noncancelable operating leases with initial or remaining lease terms of over one year at June 30, 2009 are as follows (dollar amounts in thousands):

Year ending June 30:	Operating Leases
2010	$ 11,417
2011	11,302
2012	11,125
2013	10,957
2014	10,959
2015-2019	13,272
2020-2024	12,622
2025-2029	12,500
2030-2034	12,500
2035-2039	12,500
2040-2044	12,500
2045-2049	12,500
2050-2052	4,792
Total minimum payments	$ 148,946

Rent expenses under all operating leases were $10,852,000 and $11,013,000 for the years ended June 30, 2009 and 2008, respectively.

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

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

The District provided FDC a Rent Credit with an initial amount of $7,247,000, to acknowledge its assistance in obtaining grants for the construction of a Replacement BART Commuter Parking Garage near the Fruitvale Transit Village. The Rent Credit earns interest on the outstanding balance at simple interest based on the prime rate and can only be applied to satisfy the Base Rent. Based on the agreement, FDC shall not be under any obligation to make any cash payment to the District for Base Rent at any time that Rent Credit still has a positive balance. Changes in the Rent Credit for fiscal years 2009 and 2008 are summarized as follows (dollar amounts in thousands):

	2009	2008
Rent Credit at beginning of year	$ 8,823	$ 8,469
Annual base rent applied against the credit	(112)	(98)
Interest credit during the year	260	452
Rent Credit at end of year	$ 8,971	$ 8,823

Sale/Leaseback and Lease/Leaseback Obligations
The District has entered into two leaseback obligations relating to rail traffic control equipment and rail cars.

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 deferred gain on the sale of approximately $2,015,000, which is equal to the amount of cash received on the sale.

On March 19, 2002, the District entered into a transaction to lease rail traffic control equipment (the "Network") to investors through March 19, 2042 and simultaneously sublease the Network back through January 2, 2018. The District received a head lease payment of $206,000,000 which is equivalent to the fair market value of the Network at closing. To fulfill its sublease obligations, the District paid approximately $146,000,000 to a payment undertaker and deposited $37,000,000 to a trust account. The District received cash from this lease/leaseback transaction amounting to approximately $23,000,000.

Employees' Retirement Benefits
Schedules of Funding Progress
(dollar amounts in thousands)

Miscellaneous Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Status (%)	Annual Covered Payroll	UAAL as a Percentage of Payroll (%)
6/30/06	$ 1,227,056	$ 1,162,531	$ 64,524	94.7	$ 211,146	30.6
6/30/07	1,307,372	1,263,851	43,521	96.7	210,109	20.7
6/30/08	1,391,792	1,349,563	42,229	97.0	218,889	19.3

Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Status (%)	Annual Covered Payroll	UAAL as a Percentage of Payroll (%)
6/30/06	$ 140,160	$ 108,568	$ 31,592	77.5	$ 15,155	208.5
6/30/07	151,616	120,493	31,123	79.5	16,172	192.4
6/30/08	164,993	131,846	33,147	79.9	17,721	187.0

Other Postemployment Benefits
Schedules of Funding Progress
(dollar amounts in thousands)

Retiree Medical Benefits

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll (%)
6/30/07	$ 418,100	$ 43,900	$ 374,200	10.5	$ 230,800	162.1
6/30/08	413,300	48,500	364,900	11.7	238,800	152.8

Additional OPEB

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll (%)
6/30/07	$ 20,000	$ -	$ 20,000	0.0	$ 230,800	8.7
6/30/08	20,600	-	20,600	0.0	238,800	8.6