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, 2011 and 2010

MGO Certified Public Accountants.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

For the Years Ended June 30, 2011 and 2010

Table of Contents

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, 2011 and 2010, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and retiree health benefit trust fund of the District as of June 30, 2011 and 2010, and the respective changes in its financial position and, where applicable, cash flows thereof 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 financial statements, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 59, *Financial Instruments Omnibus*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2012, 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.

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

Macias Gini & O'Connell LLP

Walnut Creek, California
January 23, 2012

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, 2011 and 2010. 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 2011, 2010 and 2009 is as follows (dollar amounts in thousands):

	2011	2010	2009
Operating revenues	$ 376,744	$ 368,586	$ 348,238
Operating expenses, net	(630,226)	(647,839)	(666,379)
Operating loss	(253,482)	(279,253)	(318,141)
Nonoperating revenues, net	222,777	232,380	239,111
Capital contributions	331,912	252,515	190,513
Special item: loss on termination of capital project	(53,194)	-	-
Change in net assets	248,013	205,642	111,483
Net assets, beginning of year	4,814,465	4,608,823	4,497,340
Net assets, end of year	$ 5,062,478	$ 4,814,465	$ 4,608,823

Operating Revenues

In fiscal year 2011, operating revenues increased by $8,158,000 which is primarily due to (1) an increase of $10,671,000 in passenger revenue due to a 3% increase in weekday average ridership from 335,000 in fiscal year 2010 to 345,000 in fiscal year 2011; (2) an increase of $2,185,000 in parking revenue coming mostly from daily non-reserve parking and from limited parking agreements; (3) an increase of $1,448,000 from other revenue sources mainly advertising, telecommunication services, traffic fines and ground leases; and offset by (4) a decrease of $6,441,000 in one-time revenues received in the prior year, none in the current year, such as revenues from the settlement of a land swap transaction and insurance proceeds discussed below.

In fiscal year 2010, operating revenues increased by $20,348,000 which is primarily due to (1) an increase of $13,924,000 in passenger revenue due to a 6.1% CPI-based increase on the general fare and a fixed amount increase on the SFO Premium Fare starting July 1, 2009; (2) revenue received from a land swap transaction amounting to $4,112,000; and (3) additional insurance proceeds of $2,435,000 from the Hayward Yard fire.

Operating Expenses, Net

In fiscal year 2011, operating expenses, net, decreased by $17,613,000 which is primarily due to (1) a decrease of $8,307,000 in feeder bus expense (Metropolitan Transportation Commission (MTC) uses the State Transit Assistance (STA) funds to fulfill the funding obligation to the bus operators. In fiscal year 2011, MTC had sufficient STA funds to cover the obligation, hence, it did not require the District to pay with its own funds for the feeder bus operators. In fiscal year 2010, MTC did not have sufficient STA funds, hence, the District was required to use its own funds of $2,500,000 and the additional grant of $5,800,000 received by the District from MTC, to contribute to MTC for the STA shortfall); (2) a decrease in the actuarially calculated annual required contribution rates for other post employment benefits from 14.96% to 12.57% which amounted to $7,505,000; (3) a decrease of $6,687,000 attributed to an increase in reimbursements for employee salaries and benefits received by operations from the District's capital projects; offset by (4) an increase in medical health insurance premiums amounting to $3,012,000 and (5) an increase of $3,234,000 in depreciation expense.

In fiscal year 2010, operating expenses, net, decreased by $18,540,000 which is primarily due to (1) a decrease of $5,715,000 in the employees' regular and premium pay and $3,258,000 in overtime pay due to the elimination through attrition of a total of 210 positions throughout the year; (2) a decrease in the annual required contribution rates for other postemployment benefits from 17.70% to 14.96% which amounted to $5,312,000; (3) a decrease of $790,000 in the CalPERS annual required contribution primarily due to a reduction in the contribution rate for the miscellaneous employees from 9.741%, first to 9.311% and then to 9.680%; (4) a decrease of $1,087,000 in medical health insurance premium due to a plan change effective January 1, 2010 which limited the District's medical contribution to the highest Bay Area HMO rate under CalPERS; (5) a decrease of $2,175,000 in employees' sick leave retirement buyback expense due to a program change effective October 19, 2009 which provides that an employee's unused sick leave hours at the time of retirement would be converted to CalPERS service credit instead of being cashed out at 50%; (6) a decrease of $4,241,000 in system and traction electrical expenses for supplies and repairs and maintenance; and offset by (7) an increase of $7,475,000 in feeder bus service expense, of which $5,900,000 was paid to MTC as the District's contribution to MTC for lost STA funds it allocates to feeder bus operations.

Nonoperating Revenues, Net

In fiscal year 2011, nonoperating revenues, net, decreased by $9,603,000. The decrease is mainly due to (1) a decrease of $14,661,000 in property tax revenues earmarked for the payment of the General Obligation Bonds which equals the decrease in the scheduled debt service payments of the bonds in 2011; (2) a decrease of $13,440,000 investment income due to a combination of lesser funds available for investment as funds are used to pay for capital expenditures and the general decline in the fair value of investments; (3) a decrease of $31,394,000 in operating financial assistance mainly from (a) the loss in 2011 of the one-time federal American Reinvestment and Recovery Act stimulus operating grants amounting to $22,356,000, (b) the decrease in allocations received from Federal Section 5307 grants which fund the District's preventative maintenance program amounting to $29,939,000; offset by (c) an increase in the STA funds received for the District's operation of $19,956,000; (4) in 2010, the District made payments of $22,683,000 to MTC which were deposited by MTC in a restricted account established to fund the future funding needs of the District for its car replacement program; there were no such payments in 2011; offset by (5) an increase in the sales tax revenues of $14,299,000 due to the improving economy, and (6) a decrease in interest expense totaling $10,065,000 related to the sales tax revenue bonds and the lease/leaseback obligation.

In fiscal year 2010, nonoperating revenues, net, decreased by $6,731,000. The decrease is mainly due to (1) a decrease of $17,766,000 in sales tax revenues because of the continuing decline in the Bay Area economy; (2) a decrease of $14,727,000 in property tax revenues mainly due to a decrease of $14,485,000 in property tax revenues earmarked for the payment of the General Obligation Bonds which follows the decrease in the scheduled debt service payments of the bonds in 2010; (3) a decrease of $9,679,000 in investment income due to lesser funds available for investment as funds are used to pay for capital expenditures; (4) a net decrease of $3,520,000 in the interest and other expenses related to the lease/leaseback obligation due to the early termination in September 2009 of the Key Equipment Finance portion of the obligation; (5) offset by a settlement income of $5,175,000 for the early termination of the contract with the systems integration consultant of the District's Business Advancement Plan; and (6) an increase of $25,363,000 in federal financial assistance which consists of $22,356,000 from the American Reinvestment and Recovery Act stimulus funds used to fund a portion of the District's preventive maintenance expenses and $3,007,000 grant used to fund the ADA paratransit expenses.

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 mostly 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. In fiscal year 2011, the revenues from capital contributions increased by $79,397,000. The increase can be mostly credited to revenues earned during fiscal year 2011 from MTC's Regional Measure 2 (RM2) grants which totaled to about $95,000,000. The major capital projects funded by the RM2 grants are the transbay tube construction, Oakland Airport Connector, Pleasant Hill crossover, eBART extension and Clipper ticket vending machine projects and also, as local match to various capital federal grants.

In fiscal year 2010, revenues from capital contributions increased by $62,002,000. The increase can be mainly attributed to revenues earned from (1) the Federal Highway Administration grants for $46,507,000 used to fund the District's seismic retrofit project and (2) MTC's Regional Measure 2 and Alameda County Transportation Improvement Authority grants for the Warm Springs Extensions Project for $67,440,000; and (3) a decrease of $49,648,000 for revenues received from donated assets in fiscal year 2009, none, in fiscal year 2010.

The major additions in fiscal years 2011 and 2010 to capital projects are detailed on pages 8 and 9.

Special Item

The special item of $53,194,000 in fiscal year 2011 refers to the net loss related to the write off of the Advanced Automatic Train Control Project due to the termination of a capital project. (Note 17)

Statements of Net Assets

A comparison of the District's *Statements of Net Assets* as of June 30, 2011, 2010 and 2009 is as follows (dollar amounts in thousands):

	2011	2010	2009
Current Assets	$ 955,259	$ 669,894	$ 661,320
Noncurrent assets - capital assets, net	5,726,847	5,505,992	5,283,987
Noncurrent assets - other	134,081	431,738	554,761
Total Assets	6,816,187	6,607,624	6,500,068
Current liabilities	306,837	306,162	325,406
Noncurrent liabilities	1,446,872	1,486,997	1,565,839
Total liabilities	1,753,709	1,793,159	1,891,245
Net Assets			
Invested in capital assets, net of related debt	4,765,595	4,561,307	4,324,423
Restricted net assets	133,389	98,380	139,939
Unrestricted net assets	163,494	154,778	144,461
Total net assets	$ 5,062,478	$ 4,814,465	$ 4,608,823

Current Assets

In fiscal year 2011, current assets increased by $285,365,000. The increase is accounted for as follows: (1) cash equivalents and investments showed an increase of $234,315,000 which is mainly due to the transfer of long term investments to terms due within a year or less to maintain better cash liquidity; and (2) receivables from funding agencies for reimbursements of capital project expenditures increased by $52,450,000.

In fiscal year 2010, current assets showed an increase of $8,574,000 which is mainly due to (1) an increase in capital grants receivable from funding agencies totaling $81,767,000; which was offset by (2) a decrease of $58,857,000 in cash, cash equivalents and investments used to pay operating, debt service and capital expenses; (3) a decrease of $3,071,000 in the use of materials and supplies for system repairs and maintenance; and (4) decreases in the following receivables: receipt of insurance receivable from the Hayward fire of $5,425,000, the full collection of the City of Dublin loan with a principal amount of $2,486,000, advances to contractors for $2,149,000, capital lease receivable of $1,577,000 and ticket sales receivables from offsite vendors for $1,069,000.

Noncurrent Assets - Other

Noncurrent assets - other in fiscal year 2011 showed a decrease of $297,657,000 which is principally due to (1) a decrease of $234,315,000 due to change in investment focus during the year from long term to short term investments for better cash liquidity since there is practically no financial advantage in terms of higher interest earnings between long term and short term investments; and (2) the use of restricted cash and investments to pay capital expenditures and debt service payments estimated at $57,246,000.

Noncurrent assets - other in fiscal year 2010 showed a decrease of $123,023,000 which is principally due to (1) a decrease of $61,410,000 in restricted investments which were used for debt service payments; (2) a decrease of $54,393,000 related to the full payment of the lease/leaseback receivable due to the early termination of the portion of the lease/leaseback obligation associated with Key Equipment Finance, Inc.; and (3) decreases in the following receivables and other assets: $2,295,000 on interest receivable, $2,554,000 on property tax receivable designated for the debt service payments of the General Obligation Bonds, $1,577,000 on capital lease receivable, and $1,479,000 for the net amortization of bond issue costs.

Current Liabilities

Current liabilities showed a small increase of $675,000 in fiscal year 2011, which is primarily due to the following: (1) an increase in payables to vendors and contractors of $18,852,000 due to the timing of receiving and paying their invoices; (2) a decrease of $5,878,000 in that portion of the advance receipts of capital from funding agencies that is estimated to be spent within a year; (3) a decrease of $10,072,000 in the scheduled principal payments of long-term debt due in one year, mainly of the 2007 GO Bonds and the lease/leaseback obligation; and (4) a decrease of $1,577,000 in the capital lease liability which was fully paid in fiscal year 2011.

In fiscal year 2010, current liabilities showed a decrease of $19,244,000, which is the net result of the following changes: (1) an increase of $4,588,000 in payables to vendors and contractors due to the timing of receiving and paying their invoices; (2) a decrease of $3,459,000 in accruals for employee salaries and benefits mainly because of the reclassification to noncurrent liabilities of the portion of the Other Post Employment Benefit actuarially determined annual required contribution that will not be funded within the next fiscal year; (3) an increase of $10,909,000 in advance receipt of capital funds from funding agencies mainly from the State of California Proposition 1B grants; and (4) a net decrease of $30,865,000 in the scheduled principal payments of long-term debt due in one year, mainly derived from the 2007 General Obligation Bonds and lease/leaseback obligation.

Noncurrent Liabilities

In fiscal year 2011, noncurrent liabilities decreased by $40,125,000 which is largely attributed to (1) a net decrease of $28,581,000 in long-term debt because of (a) principal payments and amortization amounting to $42,663,000, offset by (b) a decrease of $10,072,000 in the current portion of long-term debt, (c) an increase in the lease/leaseback obligation of $1,132,000 due to accretion, and (d) a decrease of $2,878,000 in deferred interest related to defeased bonds; (2) a decrease of $19,368,000 in the noncurrent portion of the advances received from grantors due to the use of the funds for capital expenditures; (3) an increase of $1,062,000 in the accrued reserves for employee compensated absences; (4) an increase of $5,311,000 in the unfunded other post employment benefits liability; and (5) an increase of $820,000 in the self-insurance reserves for general liability and worker's compensation.

In fiscal year 2010, noncurrent liabilities decreased by $78,842,000 which is mainly attributed to (1) the early termination and full payment of the portion of the lease/leaseback obligation related to Key Equipment Finance, Inc. amounting to $54,393,000; (2) increase of $30,865,000 in the current portion of long-term debt; (3) decrease of $4,246,000 due to the regular annual amortizations of deferred revenues; (4) decrease of $2,617,000 in the self-insurance reserves for general liability and worker's compensation; (5) decrease of $2,196,000 in the accrued reserves for employee compensated absences; (6) decrease of $1,577,000 in the capital lease payable as amounts were reclassified to current liabilities; and (7) an increase of $17,911,000 in unfunded OPEB contribution.

Capital Assets

Details of the capital assets, net of accumulated depreciation, as of June 30, 2011, 2010 and 2009 are as follows (dollar amounts in thousands):

	2011	2010	2009
Land	$ 544,874	$ 545,162	$ 540,004
Stations, track, structures and improvements	3,015,489	2,979,381	2,997,464
Buildings	8,604	8,776	5,609
Revenue transit vehicles	313,147	359,829	401,102
Other	370,275	368,722	371,014
Construction in progress	1,474,458	1,244,122	968,794
Total capital assets	$ 5,726,847	$ 5,505,992	$ 5,283,987

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $992,195,000 at June 30, 2011 and $1,036,766,000 at June 30, 2010.

The District's capital assets, before accumulated depreciation and net of retirements, showed a net increase of $373,759,000 in 2011 and $355,648,000 in 2010. The retirements in fiscal year 2011, include the termination of the Advanced Automatic Train Control Project with a net amount of $86,434,000 due to obsolete technology (Note 17). 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 $375,352,000 in 2011 and $312,975,000 in 2010;
- train control equipment totaling $13,699,000 in 2011 and $17,731,000 in 2010;
- revenue transit vehicles in the amount of $23,465,000 in 2011 and $10,916,000 in 2010;
- automatic fare collection and other equipment amounting to $19,184,000 in 2011 and $13,532,000 in 2010; and
- Business Advancement Plan (BAP) which is a project to replace the information technology systems supporting the District's administrative business totaling $11,196,000 in 2011 and $7,382,000 in 2010.

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 $41,531,000 in fiscal year 2011 and $130,191,000 in fiscal year 2010. Below is a summary of total long-term debt as of June 30, 2011, 2010 and 2009 (dollar amounts in thousands):

	2011	2010	2009
Bonds payable from and collateralized by a pledge of sales tax revenues	$ 650,210	$ 672,750	$ 708,345
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	21,000	29,000	37,000
Lease/leaseback obligation, including accumulated accretion, for rail traffic control equipment	57,294	61,355	125,876
Bonds payable from the premium fare imposed on the passengers who board on or depart from the San Francisco International Airport Station	53,445	54,240	54,955
General obligation bonds	413,865	420,000	441,360
Total long-term debt	$ 1,284,314	$ 1,325,845	$ 1,456,036

The decrease of $41,531,000 in long-term debt in 2011 is mainly due to the decrease in the scheduled principal payments and amortization.

There were no additions to long-term debt in fiscal year 2011.

The decrease of $35,595,000 in the Sales Tax Revenue Bonds in fiscal year 2010 is due to the scheduled debt service payments of $21,365,000 and $14,230,000 net decrease in principal due to defeasance described as follows:

> In 2010, the District issued Sales Tax Revenue Refunding Bonds (2010 Refunding Bonds) with a principal amount of $129,595,000 collateralized by the District's sales tax revenues. The proceeds from the 2010 Refunding Bonds were used to refund a portion of the 1998 Bonds with a total principal amount of $143,825,000.

In 2010, the District terminated and paid in full, the lease/leaseback obligation related to Key Equipment Finance, Inc., in the amount of $54,393,000.

Statements of Cash Flows/Cash, Cash Equivalents and Investments

A comparative presentation of the major sources and uses of cash for fiscal years 2011, 2010 and 2009 is as follows (dollar amounts in thousands):

	2011	2010	2009
Net cash used in operating activities	$ (109,803)	$ (122,175)	$ (178,659)
Net cash provided by noncapital financing activities	183,568	201,096	190,827
Net cash used in capital and related financing activities	(143,283)	(235,463)	(149,270)
Net cash provided by (used in) investing activities	328,186	206,117	(217,112)
Net change in cash and cash equivalents	258,668	49,575	(354,214)
Cash and cash equivalents, beginning of year	253,005	203,430	557,644
Cash and cash equivalents, end of year	511,673	253,005	203,430
Investments, end of year	243,631	560,545	730,388
Cash, cash equivalents and investments, end of year	$ 755,304	$ 813,550	$ 933,818

Cash, Cash Equivalents and Investments

In fiscal year 2011, cash, cash equivalents and investments decreased by $58,246,000 which is primarily due to (1) the use of District-owned funds, mainly from the proceeds of the general obligation bonds, amounting to $44,808,000 to pay for the seismic retrofit project expenditures; (2) the use of cash received in advance from grantors for expenditures amounting to $37,322,000 related to various capital projects such as the station modernization, Oakland Airport Connector and the eBART Extension projects, which was offset by new cash advances totaling $12,076,000 received from grantors in fiscal year 2011; (3) a decrease in investment income received of $24,516,000; and offset by (4) the receipts of net cash of $33,240,000 from the legal settlement of the Advanced Automatic Train Control project.

In fiscal year 2010, cash, cash equivalents and investment showed a decrease of $120,268,000 from $933,818,000 to $813,550,000. The decrease is mainly due to the expenditures amounting to $349,911,000 for the acquisition and/or construction of property and system improvements during the fiscal year. Of the total capital expenditures of $349,911,000, approximately $104,326,000 was funded from District-owned funds with the balance coming from grants received from funding agencies. The major projects in fiscal year 2010 include the three extension projects in the Counties of Contra Costa and Alameda, the seismic retrofit project and various improvements on the core system.

Economic Factors and Next Year's Budgets

On June 9, 2011, the District's Board of Directors approved a balanced operating budget of $617,497,000 and a capital budget of $739,980,000 for fiscal year 2012.

The economic outlook for fiscal year 2012 remains somewhat cautious, with moderate growth of approximately 2% over fiscal year 2011 estimates for both ridership and sales tax. Overall, although the economy is expected to continue to recover, the pace is generally expected to be slow, and characterized by the absence of new jobs. With ridership and sales tax growth the primary factors, the fiscal year 2012 operating budget projections show revenues exceeding expenses allowing the District an opportunity to fund core system capital infrastructure needs and key service attributes that were negatively impacted during the recession. The main reason the operating picture is improved is not due to explosive revenue growth, but instead due to the foundation laid by actions the District took at the start of the recession to control costs and increase revenues, including several years of budget cuts, contract negotiations resulting in savings in employee benefit costs and work rule efficiencies, and fee changes resulting in increased passenger and parking revenues. Because of continued economic uncertainty regarding the speed of the recovery, as well as the full receipt of the budgeted STA funding, the District has taken a cautious approach in adding new, ongoing operating expenses, by putting the majority of available funding into one-time allocation for projects such as the downtown San Francisco escalator rehabilitation, three-year seat replacement program, Title VI of the Civil Rights Act of 1964 compliance, transition support for District's Business Advancement Program and other projects.

While the operating outlook is improved compared to the last several years, the capital funding picture continues to be constrained, with capital needs far in excess of funding sources. Though the capital budget is primarily funded through capital grants, District-allocated funds are essential for required local match, equipment and inventory needs, and important state-of-good-repair-focused expenditures which do not qualify for grants, including stations and facilities renovation. The largest program areas for capital expenditures in fiscal year 2012 will be the system expansion and system renovation, the latter of which comprises a program of essential reinvestment, primarily in the areas of station modernization, train control, traction power, rail replacement and trackway renovation and other critical projects. Work will also continue on security upgrades, life safety improvements, system accessibility improvements, the East Contra Costa eBART, Oakland Airport Connector and Warm Springs/Silicon Valley extension programs, and continuing studies and analysis on options for the Livermore/I-580 corridor.

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, 2011 and 2010
(dollar amounts in thousands)

	2011	2010
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 118,320	$ 88,847
Investments	69,115	136,518
Capital grants receivable	218,967	166,517
Receivables and other assets	21,414	19,713
Current portion of capital lease receivable	-	1,577
Materials and supplies	27,007	28,531
Total unrestricted current assets	454,823	441,703
Restricted assets		
Cash and cash equivalents	393,353	164,158
Investments	107,083	64,033
Total restricted current assets	500,436	228,191
Total current assets	955,259	669,894
Noncurrent assets		
Capital assets		
Nondepreciable	2,019,332	1,789,283
Depreciable, net of accumulated depreciation	3,707,515	3,716,709
Unrestricted assets		
Investments	22,620	-
Receivables and other assets	12,038	11,195
Restricted assets		
Investments	44,813	359,994
Receivables and other assets	30,045	30,791
Deposits for sublease obligation	24,565	29,758
Total noncurrent assets	5,860,928	5,937,730
Total assets	6,816,187	6,607,624
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and other liabilities	220,055	201,203
Current portion of long-term debt	34,212	44,284
Self-insurance liabilities	12,735	11,333
Deferred revenue	39,835	47,765
Current portion of capital lease liability	-	1,577
Total current liabilities	306,837	306,162
Noncurrent liabilities		
Accounts payable and other liabilities	68,891	60,281
Long-term debt, net of current portion	1,265,351	1,293,932
Self-insurance liabilities	17,132	16,312
Deferred revenue	95,498	116,472
Total noncurrent liabilities	1,446,872	1,486,997
Total liabilities	1,753,709	1,793,159
Net assets		
Invested in capital assets, net of related debt	4,765,595	4,561,307
Restricted net assets		
for debt service and other liabilities	133,389	98,380
Unrestricted net assets	163,494	154,778
Total net assets	$ 5,062,478	$ 4,814,465

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, 2011 and 2010
(dollar amounts in thousands)

	2011	2010
Operating revenues		
Fares	$ 343,472	$ 332,018
Other	33,272	36,568
Total operating revenues	376,744	368,586
Operating expenses		
Transportation	160,535	167,023
Maintenance	197,215	195,746
Police services	47,691	47,233
Construction and engineering	19,856	19,939
General and administrative	121,433	130,949
Depreciation	138,819	135,585
Total operating expenses	685,549	696,475
Less - capitalized costs	(55,323)	(48,636)
Net operating expenses	630,226	647,839
Operating loss	(253,482)	(279,253)
Nonoperating revenues (expenses)		
Transactions and use tax - sales tax	180,819	166,520
Property tax	46,109	61,369
Operating financial assistance	28,134	59,428
Contribution for BART car replacement funding exchange program	-	(22,683)
Investment income	11,695	25,196
Interest expense	(45,503)	(57,849)
Other income (expense), net	1,523	399
Total nonoperating revenues, net	222,777	232,380
Change in net assets before capital contributions and special item	(30,705)	(46,873)
Capital contributions	331,912	252,515
Special item: loss on termination of a capital project	(53,194)	-
Change in net assets	248,013	205,642
Net assets, beginning of year	4,814,465	4,608,823
Net assets, end of year	$ 5,062,478	$ 4,814,465

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, 2011 and 2010
(dollar amounts in thousands)

	2011	2010
Cash flows from operating activities		
Receipts from customers	$ 341,985	$ 335,632
Payments to suppliers	(135,053)	(142,692)
Payments to employees	(348,087)	(350,798)
Other operating cash receipts	31,352	35,683
Net cash used in operating activities	(109,803)	(122,175)
Cash flows from noncapital financing activities		
Transactions and use tax (sales tax) received	125,106	110,675
Property tax received	30,508	31,767
Financial assistance received	27,954	58,654
Net cash provided by noncapital financing activities	183,568	201,096
Cash flows from capital and related financing activities		
Transactions and use tax (sales tax) received	55,713	55,845
Property tax received	16,502	32,618
Capital grants received	256,127	176,021
Expenditures for facilities, property and equipment	(427,099)	(349,911)
Principal paid on long-term debt	(37,470)	(68,535)
Payments of long-term debt issuance and service costs	(67)	(375)
Interest paid on long-term debt	(40,807)	(62,007)
Principal payments received from notes receivable	78	2,577
Settlement received from early termination of contract	-	5,175
Deposit - Lodi Power Plant	500	-
Legal settlement fees	(6,760)	-
Proceeds from legal settlement	40,000	-
Contribution for BART car replacement funding exchange program	-	(22,683)
Guarantee advertising deposit received	-	1,300
Loss from early termination of lease/leaseback obligation	-	(5,488)
Net cash used in capital and related financing activities	(143,283)	(235,463)
Cash flows from investing activities		
Proceeds from sale and maturity of investments	886,575	662,443
Purchase of investments	(569,661)	(492,114)
Investment income	11,272	35,788
Net cash provided by investing activities	328,186	206,117
Net change in cash and cash equivalents	258,668	49,575
Cash and cash equivalents, beginning of year	253,005	203,430
Cash and cash equivalents, end of year	$ 511,673	$ 253,005
Reconciliation of cash and cash equivalents to the Statements of Net Assets		
Current, unrestricted assets - cash and cash equivalents	$ 118,320	$ 88,847
Current, restricted assets - cash and cash equivalents	393,353	164,158
Total cash and cash equivalents	$ 511,673	$ 253,005

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, 2011 and 2010
(dollar amounts in thousands)

	2011	2010
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (253,482)	$ (279,253)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	138,819	135,585
Amortization of deferred settlement costs	316	321
Net effect of changes in		
Receivables and other assets	(4,839)	6,049
Materials and supplies	1,524	3,071
Accounts payable and other liabilities	7,861	14,907
Self-insurance liabilities	2,221	(1,725)
Deferred revenue	(2,223)	(1,130)
Net cash used in operating activities	$ (109,803)	$ (122,175)
Noncash transactions		
Capital assets acquired with a liability at year-end	$ 85,105	$ 63,269
Net proceeds from the issuance of the 2010 Sales Tax Revenue Refunding Bonds placed in escrow to defease bonds	-	144,974
Reclassification from construction in progress to accumulated depreciation	14,513	-
Special item: termination of a capital project	46,434	-
Lease/leaseback obligation additions	2,038	5,096
Lease/leaseback obligation amortization	7,751	44,547
Reduction in capital lease receivable and liability	1,577	3,155
Increase (decrease) in fair value of investments	(1,898)	3,948
Amortization of long-term debt premium, discount and issue costs	(1,361)	(521)
Amortization of deferred interest on early debt retirement	1,410	1,362
Amortization of deferred gain on lease/leaseback transaction	1,537	1,482
Amortization of deferred ground lease	558	589

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, 2011 and 2010
(dollar amounts in thousands)

	2011	2010
Assets		
Cash and cash equivalents	$ 169	$ 125
Receivables and other assets	803	393
Pending trades receivable	956	79
Investments		
Domestic common stocks	46,090	41,722
U.S. Treasury obligations	37,252	18,951
Money market mutual funds	9,438	9,900
Mutual funds - equity	29,965	11,691
Corporate obligations	9,931	7,731
Miscellaneous obligation	130	-
Foreign stocks	848	957
Foreign obligations	86	252
Total investments	133,740	91,204
Total assets	135,668	91,801
Liabilities		
Accounts payable	82	81
Pending trades payable	15,481	3,264
Total liabilities	15,563	3,345
Net assets held in trust for retiree health benefits	$ 120,105	$ 88,456

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, 2011 and 2010
(dollar amounts in thousands)

	2011	2010
Additions		
Employer contributions		
Cash contributions	$ 11,291	$ 11,532
Pay-as-you-go contributions	13,272	11,534
Total employer contributions	24,563	23,066
Investment income (expense)		
Interest income	2,254	1,833
Realized gain	6,939	3,894
Net appreciation in fair value of investments	11,463	3,419
Investment expense	(247)	(262)
Net investment expense	20,409	8,884
Total additions	44,972	31,950
Deductions		
Pay-as-you-go benefit payments	13,272	11,534
Legal fees	10	8
Audit fees	17	16
Insurance expense	24	23
Total deductions	13,323	11,581
Increase in trust net assets	31,649	20,369
Net assets held in trust for retiree health benefits:		
Beginning of year	88,456	68,087
End of year	$ 120,105	$ 88,456

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 in fiscal year 2010. In fiscal year 2011, the Authority was terminated and the District absorbed in its financial statements the assets and liabilities of the Authority upon termination date (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 (the "Trust"). 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. 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 Trust, 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. 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. 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 of $5,000 or more and a useful life of more than one year, and all costs related to capital projects, regardless of amounts. Upon disposition, costs and accumulated depreciation/amortization are removed from the accounts and resulting gains or losses are included in operations.

The District capitalizes, as intangible capital assets, easements and right-of-ways and internally generated intangibles such as computer software. Easements and right-of-ways are not amortized as they have indefinite useful lives while computer software is amortized over a period of 20 years.

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. 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 net interest expense of $12,776,000 in fiscal year 2011 and $5,555,000 in fiscal year 2010.

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 $57,665,000 as of June 30, 2011 and $58,383,000 in June 30, 2010 and is shown in the statements of net assets in accounts payable and other liabilities as follows (dollar amounts in thousands):

	2011	2010
Current liabilities	$ 18,888	$ 20,667
Noncurrent liabilities	38,777	37,716
Total	$ 57,665	$ 58,383

Pollution Remediation

The recognition of pollution remediation obligations (including contamination) address the current or potential detrimental effects of existing pollution by estimating costs associated with participating in pollution remediation activities, such as site assessments and cleanups. 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 in which all eligibility requirements have been satisfied (Notes 9 and 10).

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

- American Federation of State, County and Municipal Employees (AFSCME), Local 3993
- Amalgamated Transit Union (ATU), Local 1555
- Service Employees International Union (SEIU), Local 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 adjusted to be included in the cost of the related capital asset. This adjustment is reflected in the statement of revenues, expenses and changes in net assets as a reduction of operating expenses. The amounts of $55,323,000 and $48,636,000 were capitalized during the years ended June 30, 2011 and 2010, 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.

Recent Accounting Pronouncements That Have Been Adopted
In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The adoption of GASB 59 did not have a material impact on the District's financial statements.

Recent Accounting Pronouncements That Have Not Been Adopted
The District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*. This statement addresses how to account for and report service concession agreements (SCAs). SCAs represent a type of public-private or public-public partnership that state and local governments enter into. As used in the statement, a SCA is an arrangement between a transferor (a government) and an operator (government or nongovernment) in which the following conditions are met:

- The transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration.
- The operator collects and is compensated by fees from third parties.

This statement also provides authoritative guidance on whether the transferor or the operator should report the capital asset in its financial statements; when to recognize up-front payments from an operator as revenue; and how to record any obligation of the transferor to the operator. Application of this statement is effective for the District's fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance found in the following pronouncements issued on or before November 30, 1989:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- The Accounting Principals Board Opinions, and
- The Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure.

Application of this statement is effective for the District's fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides a new report format that will require all deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The residual measure in the statement of financial position will be referred to as net position rather than net assets. Application of this statement is effective for the District's fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This statement provides clarification of the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. Application of this statement is effective for the District's fiscal year ending June 30, 2012.

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):

	2011			2010		
	Unrestricted	**Restricted**	**Total**	**Unrestricted**	**Restricted**	**Total**
Current assets						
Cash and cash equivalents	$ 118,320	$ 393,353	$ 511,673	$ 88,847	$ 164,158	$ 253,005
Investments	69,115	107,083	176,198	136,518	64,033	200,551
Noncurrent assets						
Investments	22,620	44,813	67,433	-	359,994	359,994
Total	$ 210,055	$ 545,249	$ 755,304	$ 225,365	$ 588,185	$ 813,550

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, only 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 $24.0 billion and $23.3 billion at June 30, 2011 and 2010, respectively. LAIF is part of the State of California Pooled Money Investment Account ("PMIA"), whose balance at June 30, 2011 and 2010 was $66.5 billion and $69.4 billion, respectively. Of these amounts, 5.01% and 5.42% were invested in structured notes and asset-backed securities and the remaining balance was invested in non-derivative instruments as of June 30, 2011 and 2010, respectively. PMIA is not SEC-registered, but is required to invest according to the California Government Code. The average maturity of PMIA investments was 237 days and 203 days as of June 30, 2011 and 2010, 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, 2011 and 2010 is as follows (dollar amounts in thousands):

	2011	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 - 5	6 - 10
Money market mutual funds	$ 292,202	$ 292,202	$ -	$ -
U.S. government agencies	27,514	151	5,048	22,315
Repurchase agreements	36,822	-	36,822	-
U.S. Treasury bills	188,695	188,695	-	-
Local Agency Investment Fund	20,000	20,000	-	-
Total investments	565,233	$ 501,048	$ 41,870	$ 22,315
Deposits with banks	186,982			
Certificates of deposit	600			
Imprest funds	2,489			
Total cash and investments	$ 755,304			

	2010	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 - 5	6 - 10
Money market mutual funds	$ 124,845	$ 124,845	$ -	$ -
U.S. government agencies	32,477	9,233	602	22,642
Repurchase agreements	327,517	327,517	-	-
U.S. Treasury bills	199,942	199,942	-	-
Local Agency Investment Fund	20,000	20,000	-	-
Total investments	704,781	$ 681,537	$ 602	$ 22,642
Deposits with banks	105,674			
Certificates of deposit	609			
Imprest funds	2,486			
Total cash and investments	$ 813,550			

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 (Standard and Poor's subsequently downgraded U.S. and U.S. Government Securities, see Note 19), Fitch Ratings and/or Moody's as of June 30, 2011 and 2010 (dollar amounts in thousands):

	2011	Credit Ratings			
	Fair Value	AAA	AA	A	Not Rated
Money market mutual funds	$ 292,202	$ 234,679	$ 57,523	$ -	$ -
U.S. Government agencies	27,514	4,618	-	448	22,448
Repurchase agreements	36,822	-	-	36,822	-
U.S. Treasury bills	188,695	188,695	-	-	-
Local Agency Investment Fund	20,000	-	-	-	20,000
Total investments	565,233	$ 427,992	$ 57,523	$ 37,270	$ 42,448
Deposits with banks	186,982				
Certificates of deposit	600				
Imprest funds	2,489				
Total cash and investments	$ 755,304				

	2010	Credit Ratings				
	Fair Value	AAA	AA	A	BB	Not Rated
Money market mutual funds	$ 124,845	$ 33,259	$ 91,586	$ -	$ -	$ -
U.S. Government agencies	32,477	8,998	-	460	-	23,019
Repurchase agreements	327,517	163,700	-	-	163,817	-
U.S. Treasury bills	199,942	199,942	-	-	-	-
Local Agency Investment Fund	20,000	-	-	-	-	20,000
Total investments	704,781	$ 405,899	$ 91,586	$ 460	$ 163,817	$ 43,019
Deposits with banks	105,674					
Certificates of deposit	609					
Imprest funds	2,486					
Total cash and investments	$ 813,550					

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):

	2011		2010	
	Amount	Percentage of Total Investment Portfolio (%)	Amount	Percentage of Total Investment Portfolio (%)
MBIA Repurchase Agreement	$ -	-	$ 163,817	23%
FSA Cap Repurchase Agreement	-	-	163,700	23%
Bayersche Landesbank Investment Repurchase Agreement	36,822	7%	-	-

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

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, 2011 and 2010 is as follows (dollar amounts in thousands):

	2011	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	$ 37,252	$ 9,184	$ 7,109	$ 5,423	$ 15,536
Money market mutual funds	9,438	9,438	-	-	-
Corporate obligations	9,931	-	4,263	3,447	2,221
Miscellaneous obligation	130	-	-	130	-
Foreign obligations	86	-	86	-	-
Investments subject to interest rate risk	56,837	$ 18,622	$ 11,458	$ 9,000	$ 17,757
Domestic common stocks	46,090				
Mutual funds- equity	29,965				
Foreign stocks	848				
Total investments	$ 133,740				

	2010	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	$ 18,951	$ 1,075	$ 11,078	$ 4,877	$ 1,921
Money market mutual funds	9,900	9,900	-	-	-
Corporate obligations	7,731	37	2,433	3,123	2,138
Foreign obligations	252	-	-	137	115
Investments subject to interest rate risk	36,834	$ 11,012	$ 13,511	$ 8,137	$ 4,174
Domestic common stocks	41,722				
Mutual funds- equity	11,691				
Foreign stocks	957				
Total investments	$ 91,204				

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 (Standard and Poor's subsequently downgraded U.S. and U.S. Government Securities, see Note 19) and/or Moody's as of June 30, 2011 and 2010 (dollar amounts in thousands):

	2011	Credit Ratings			
	Fair Value	AAA	AA	A	BBB
U.S. Treasury obligations	$ 37,252	$ 37,252	$ -	$ -	$ -
Money market mutual funds	9,438	9,438	-	-	-
Corporate obligations	9,931	2,879	1,150	4,392	1,510
Miscellaneous obligation	130	130	-	-	-
Foreign obligations	86	-	-	86	-
Investments subject to credit risk	56,837	$ 49,699	$ 1,150	$ 4,478	$ 1,510
Domestic common stocks	46,090				
Mutual funds - equity	29,965				
Foreign stocks	848				
Total investments	$ 133,740				

	2010	Credit Ratings				
	Fair Value	AAA	AA	A	BBB	CCC
U.S. Treasury obligations	$ 18,951	$ 18,951	$ -	$ -	$ -	$ -
Money market mutual funds	9,900	9,900	-	-	-	-
Corporate obligations	7,731	2,245	551	3,709	1,196	30
Foreign obligations	252	-	137	115	-	-
Investments subject to credit risk	36,834	$ 31,096	$ 688	$ 3,824	$ 1,196	$ 30
Domestic common stocks	41,722					
Mutual funds - equity	11,691					
Foreign stocks	957					
Total investments	$ 91,204					

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, 2011 and 2010 (dollar amounts in thousands):

	2011	2010
Interest receivable - trust for sublease obligation	$ 18,888	$ 17,174
Interest receivable - other investments	411	2,310
Unamortized issuance costs	10,609	11,283
Deferred charges	585	674
Deposit for power supply	11,419	11,340
Off-site ticket vendor receivable	3,435	3,764
Notes receivable	1,468	1,546
Capitol Corridor Joint Powers Authority receivable (Note 16)	6,125	8,071
Property tax receivable	291	1,191
Prepaid expenses	5,737	1,596
Imprest deposits for self-insurance liabilities	659	490
Other	4,188	2,525
Allowance for doubtful accounts	(318)	(265)
Total receivables and other assets	$ 63,497	$ 61,699
Current, unrestricted portion	$ 21,414	$ 19,713
Noncurrent, unrestricted portion	12,038	11,195
Noncurrent, restricted portion	30,045	30,791
Total receivables and other assets, as presented in the basic financial statements	$ 63,497	$ 61,699

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, 2011 and 2010, the balance of the deferred gain was $778,000 and $833,000, respectively. The balance of both the receivable and the liability was zero as of June 30, 2011 and $1,577,000 on June 30, 2010, 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.

On January 9, 2011 the lessor, GE Credit Finans AB, executed the Bill of Sale and Assignment of Rights and Remedies which transferred the title to and interest in the 25 C-2 rail cars covered by the 1995 Lease Agreement to the District, and effectively ended the Lease Agreement.

At June 30, 2011 and 2010 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):

	2011	2010
Amounts at beginning of year	$ 1,577	$ 4,732
Amortization during the year	(1,577)	(3,155)
Balance at end of year	-	1,577
Less - current portion	-	(1,577)
Net noncurrent portion	$ -	$ -

Accumulated depreciation related to the C-2 rail cars covered by the sale/leaseback agreement totaled $29,791,000 and $27,938,000 as of June 30, 2011 and 2010, respectively.

5. Capital Assets

Changes to capital assets during the year ended June 30, 2011 were as follows (dollar amounts in thousands):

	Lives (Years)	2010	Additions and Transfers	Retirements and Transfers	2011
Capital assets, not being depreciated					
Land	N/A	$ 545,162	$ -	$ (288) *	$ 544,874
Construction in progress	N/A	1,244,121	465,078	(234,741) **	1,474,458
Total capital assets, not being depreciated		1,789,283	465,078	(235,029)	2,019,332
Capital assets, being depreciated					
Tangible Asset					
Stations, track, structures and improvements	80	3,801,511	100,883	-	3,902,394
Buildings	80	10,732	-	-	10,732
System-wide operation and control	20	580,708	6,595	-	587,303
Revenue transit vehicles	30	1,047,964	-	-	1,047,964
Revenue transit vehicles under capital lease	30	55,593	-	-	55,593
Service and miscellaneous equipment	3-20	213,510	1,425	(428)	214,507
Capitalized construction and start-up costs	30	98,305	-	-	98,305
Repairable property items	30	37,890	10,854	-	48,744
Intangible Asset					
Information System	20	14,407	24,381	-	38,788
Total capital assets, being depreciated		5,860,620	144,138	(428)	6,004,330
Less accumulated depreciation		(2,143,911)	(153,332)	428	(2,296,815)
Total capital assets, being depreciated, net		3,716,709	(9,194)	-	3,707,515
Total capital assets, net		$ 5,505,992	$ 455,884	$ (235,029)	$ 5,726,847

* The reduction of $288,000 in land refers to the sale of land at the Fruitvale BART station (Note 18).
** Includes $86,434,000 due to the termination of a capital project (Note 17).

Changes to capital assets during the year ended June 30, 2010 were as follows (dollar amounts in thousands):

	Lives (Years)	2009	Additions and Transfers	Retirements and Transfers	2010
Capital assets, not being depreciated					
Land	N/A	$ 540,004	$ 8,716	$ (3,558)	$ 545,162
Construction in progress	N/A	968,794	356,840	(81,513)	1,244,121
Total capital assets, not being depreciated		1,508,798	365,556	(85,071)	1,789,283
Capital assets, being depreciated					
Tangible Asset					
Stations, track, structures and improvements	80	3,769,766	32,450	(705)	3,801,511
Buildings	80	7,472	3,260	-	10,732
System-wide operation and control	20	572,558	8,160	(10)	580,708
Revenue transit vehicles	30	1,042,346	5,618	-	1,047,964
Revenue transit vehicles under capital lease	30	55,593	-	-	55,593
Service and miscellaneous equipment	3-20	202,044	13,562	(2,096)	213,510
Capitalized construction and start-up costs	30	98,305	-	-	98,305
Repairable property items	30	22,966	14,988	(64)	37,890
Intangible Asset					
Information System	20	14,407	-	-	14,407
Total capital assets, being depreciated		5,785,457	78,038	(2,875)	5,860,620
Less accumulated depreciation		(2,010,268)	(135,585)	1,942	(2,143,911)
Total capital assets, being depreciated, net		3,775,189	(57,547)	(933)	3,716,709
Total capital assets, net		$ 5,283,987	$ 308,009	$ (86,004)	$ 5,505,992

After the completion of the San Francisco International Airport Extension in 2004, which added 38 miles of track and 10 new stations to the system, the District embarked on 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.

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $992,195,000 at June 30, 2011, and $1,036,766,000 in 2010.

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, 2011 and 2010 (dollar amounts in thousands):

	2011	2010
Payable to vendors and contractors	$ 125,785	$ 105,292
Employee salaries and benefits	135,520	126,694
Accrued interest payable	27,641	29,498
Liabilities at the end of year	288,946	261,484
Less noncurrent portion	(68,891)	(60,281)
Net current portion	$ 220,055	$ 201,203

7. Long-Term Debt

Long-term debt activity for the year ended June 30, 2011 is summarized as follows (dollar amounts in thousands):

	2010	Additions/ Accretion	Payments/ Amortization	2011
1990 Sales Tax Revenue Refunding Bonds	$ 28,775	$ -	$ (13,870)	$ 14,905
1998 Sales Tax Revenue Bonds	1,625	-	(1,625)	-
2001 Sales Tax Revenue Bonds	43,765	-	-	43,765
2005 Sales Tax Revenue Refunding Bonds	296,530	-	(6,840)	289,690
2006 Sales Tax Revenue Bonds	64,915	-	-	64,915
2006 Sales Tax Revenue Refunding Bonds	107,545	-	(205)	107,340
2010 Sales Tax Revenue Refunding Bonds	129,595	-	-	129,595
Construction Loans	117,500	-	(8,000)	109,500
Lease/Leaseback Obligation	49,568	-	(5,193)	44,375
2002 SFO Extension Premium Fare Bonds	54,240	-	(795)	53,445
2005 General Obligation Bonds	40,490	-	(895)	39,595
2007 General Obligation Bonds	379,510	-	(5,240)	374,270
	1,314,058	-	(42,663)	1,271,395
Add (less):				
Accumulated Accretion on Lease/Leaseback Obligation	11,787	4,054	(2,922)	12,919
Debt related items*	12,371	3,502 **	(624)	15,249
Long-term debt net of accumulated accretion and debt related items	1,338,216	$ 7,556	$ (46,209)	1,299,563
Less: current portion of long-term debt	(44,284)			(34,212)
Net long-term debt	$ 1,293,932			$ 1,265,351

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

** Represents excess deferred interest refunded by the fiscal agent related to the 2010 Sales Tax Revenue Refunding Bonds.

Long-term debt activity for the year ended June 30, 2010 is summarized as follows (dollar amounts in thousands):

	2009	Additions/ Accretion	Payments/ Amortization	2010
1990 Sales Tax Revenue Refunding Bonds	$ 28,775	$ -	$ -	$ 28,775
1998 Sales Tax Revenue Bonds	151,655	-	(150,030)	1,625
2001 Sales Tax Revenue Bonds	43,765	-	-	43,765
2005 Sales Tax Revenue Refunding Bonds	311,495	-	(14,965)	296,530
2006 Sales Tax Revenue Bonds	64,915	-	-	64,915
2006 Sales Tax Revenue Refunding Bonds	107,740	-	(195)	107,545
2010 Sales Tax Revenue Refunding Bonds	-	129,595	-	129,595
Construction Loans	125,500	-	(8,000)	117,500
Lease/Leaseback Obligation	102,931	-	(53,363)	49,568
2002 SFO Extension Premium Fare Bonds	54,955	-	(715)	54,240
2005 General Obligation Bonds	41,360	-	(870)	40,490
2007 General Obligation Bonds	400,000	-	(20,490)	379,510
	1,433,091	129,595	(248,628)	1,314,058
Add (less):				
Accumulated Accretion on Lease/Leaseback Obligation	22,945	5,096	(16,254)	11,787
Debt related items*	1,161	11,098	112	12,371
Long-term debt net of accumulated accretion and debt related items	1,457,197	$ 145,789	$ (264,770)	1,338,216
Less: current portion of long-term debt	(75,149)			(44,284)
Net long-term debt	$ 1,382,048			$ 1,293,932

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

1990 Sales Tax Revenue Refunding Bonds (the 1990 Refunding 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 Refunding Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. At June 30, 2011, the 1990 Bonds consist of $14,905,000 in current interest serial bonds due in 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. In May 2010, 1998 Bonds with an aggregate principal amount of $143,825,000 were refunded from the proceeds of the 2010 Refunding Bonds. At June 30, 2011, the 1998 Bonds had been fully paid.

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, 2011, 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 Refunding Bonds)
In August 2005, the District issued the Sales Tax Revenue Bonds, Refunding Series 2005A totaling $352,095,000. The 2005 Refunding 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 Refunding Bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2011, the 2005 Refunding Bonds consist of $200,570,000 in serial bonds due from 2011 to 2026 with interest rates ranging from 3.50% 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, 2011, 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, 2011, the 2006 Refunding Bonds consist of serial bonds amounting to $52,770,000 due from 2011 to 2027 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.

2010 Sales Tax Revenue Refunding Bonds (the 2010 Refunding Bonds)

On May 5, 2010, the District issued the Sales Tax Revenue Bonds, Refunding Series 2010, with a principal amount of $129,595,000 to provide sufficient funds to refund a portion of the 1998 Bonds with an aggregate principal amount of $143,825,000, to fund a deposit to the Series 2010 Reserve Account in the bond reserve fund and to pay costs of issuance of the Series 2010 Bonds. The District funded from its own funds the Bond Reserve Fund in the amount of $14,202,000. The 2010 Refunding Bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues. At June 30, 2011, the 2010 Refunding Bonds consist of serial bonds amounting to $129,595,000 with interest rates ranging from 3.0% to 5.0%, with various maturity dates from 2011 to 2028.

The net proceeds from the refunding, which include premium of $16,065,000 and residual cash balance of $2,353,000 provided by the old debt and after paying costs of issuance of $686,000, amounted to $147,327,000. The net proceeds of $147,327,000 was placed in an irrevocable trust with an escrow agent to provide for the redemption of the refunded bonds. At June 30, 2011, the defeased bonds had been fully paid.

Although the refunding resulted in the accounting recognition of a deferred loss of $4,936,000 for the year ended June 30, 2010, the District in effect reduced its aggregate debt service payments by $22,638,000 and generated net economic savings through the refunding (difference between the present values of the old and new debt service payments) of $15,756,000.

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, 2011, 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 $21,000,000 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 $21,000,000 is repaid from the District's general funds amortized over a three-year period ending in June 2014, 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. The unamortized balance of the deferred gain at June 30, 2011 was $9,644,000 and $11,128,000 at June 30, 2010. 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, 2011, the Payment Undertaker's credit rating was Baa1 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.

On September 2, 2009, the District entered into a Termination Agreement with Key Equipment Finance, Inc., which is one of the three Equity Investors in the Lease/Leaseback transaction. Under the terms of the Termination Agreement, the District bought back the portion of the head lease interest identified with Key Equipment Finance for a total purchase price equal to the sum of (1) $30,559,000 plus (2) all principal and interest related to the debt portion of the District sublease obligation to Key Equipment Finance Inc., Subject to the terms and conditions of the Termination Agreement, Key Equipment Finance, Inc. acknowledge that all of its respective right, title, and interest in and to the Head Lease Interest, the Network and the Software Rights are automatically terminated and all such right, title, and interest vest in the District.

The District recognized a loss of $5,489,000 related to this early termination, which is the net result of investments plus accreted interest income totaling $30,559,000 used to liquidate the net Lease/Leaseback obligation of $25,070,000 identified to the portion of the head lease and sublease interest of Key Equipment Finance. The net lease/leaseback obligation of $25,070,000 that was bought back by the District consists of the difference between (1) the sublease payable of $54,394,000 consisting of a principal amount of $42,887,000 and accrued interest of $11,507,000 and (2) the head lease receivable amount of $29,324,000 made up of a principal amount of $27,529,000 and accrued interest of $1,795,000. The details of the lease/leaseback obligation, including the accretion of interest, are as follows (dollar amounts in thousands):

	2011	2010
Long-term debt at beginning of year	$ 61,355	$ 125,876
Interest expense incurred during the year	4,054	5,096
Payment/Amortization of principal	(5,193)	(53,363)
Amortization of accumulated accretion	(2,922)	(16,254)
Total long-term debt at end of year	57,294	61,355
Lease amortization in one year	(257)	(6,814)
Net long-term debt at end of year	$ 57,037	$ 54,541

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 payments of the principal and interest when due, are insured by a financial guaranty insurance policy issued by an insurance company. At June 30, 2011, the 2002 Airport Premium Fare Bonds consist of $18,245,000 in serial bonds due from 2011 to 2022 with interest rates ranging from 3.50% 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, 2011, the 2005 GO Bonds consist of $19,980,000 in serial bonds due from 2011 to 2026 with interest ranging from 3.125% 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, 2011, the 2007 GO Bonds consist of $109,820,000 in serial bonds due from 2011 to 2027 with interest rates ranging from 3.70% to 5.0%, and three term bonds totaling $264,450,000 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 Refunding 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. The most recent refunding occurred in May 2010 when a portion of the 1998 Bonds with an aggregate principal amount of $143,825,000 were refunded from the proceeds of the 2010 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, 2011 and 2010 is $122,200,000 and $266,025,000, respectively and consists of (dollar amounts in thousands):

	2011	2010
August 2005 defeasance	$ 19,640	$ 19,640
November 2006 defeasance	102,560	102,560
May 2010 defeasance	-	143,825
	$ 122,200	$ 266,025

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 $26,958,000 on June 30, 2011 and $31,871,000 at June 30, 2010. Amortization expense on these deferred charges was $1,410,000 in fiscal year 2011 and $1,362,000 in fiscal year 2010. In addition, the District received a refund of $3,502,000 in July 2011 on amounts previously paid to the fiscal agent for refunded debt, which reduced the deferred loss on early debt retirement.

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, 2011, the District has recorded an estimated arbitrage liability amounting to $2,535,000 and $2,520,000 in 2010, 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, 2011 consist of the 1990 Refunding Bonds, the 2001 Bonds, the 2005 Refunding Bonds, the 2006 Bonds, the 2006 Refunding Bonds, and the 2010 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 $1,036,804,000 as of June 30, 2011 ($1,091,274,000 as of June 30, 2010) which is 16% in 2011 (21% in 2010) of the total projected sales tax revenues of $6,349,000,000 as of June 30, 2011 ($5,223,971,000 as of June 30, 2010). The pledged sales tax revenues recognized in fiscal year 2011 was $180,819,000 ($166,520,000 in fiscal year 2010) as against a total debt service payment of $54,470,000 in fiscal year 2011 ($54,639,000 in fiscal year 2010).

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 as of June 30, 2011 is $89,646,000 ($93,088,000 on June 30, 2010) which is 13% (27% in 2010) of the total projected SFO station premium fare revenues of $685,648,000. The pledged SFO station premium fare revenues recognized in fiscal year 2011 was $15,094,000 ($14,373,000 in fiscal year 2010) as against a total debt service payment of $3,342,000 in fiscal year 2011 ($3,387,000 in fiscal year 2010).

Debt Repayments

The following is a schedule of long-term debt principal and interest payments required as of June 30, 2011 (dollar amounts in thousands):

Sales Tax Revenue Bonds

Year ending June 30:	1990 Bonds Principal	1990 Bonds Interest	2001 Bonds Principal	2001 Bonds Interest	2005 Bonds Principal	2005 Bonds Interest
2012	$ 14,905	$ 1,006	$ -	$ 2,200	$ 8,225	$ 13,593
2013	-	-	2,020	2,111	9,010	13,242
2014	-	-	2,120	2,005	12,630	12,651
2015	-	-	2,230	1,892	13,445	12,006
2016	-	-	2,340	1,771	15,130	11,298
2017-2021	-	-	5,360	8,065	69,285	45,517
2022-2026	-	-	6,870	6,502	52,585	34,150
2027-2031	-	-	8,825	4,501	77,595	13,621
2032-2036	-	-	11,360	1,900	31,785	2,481
Thereafter	-	-	2,640	-	-	-
	$ 14,905	$ 1,006	$ 43,765	$ 30,947	$ 289,690	$ 158,559

Year ending June 30:	2006 Bonds Principal	2006 Bonds Interest	2006 Refunding Bonds Principal	2006 Refunding Bonds Interest	2010 Refunding Bonds Principal	2010 Refunding Bonds Interest
2012	$ -	$ 3,131	$ 210	$ 4,619	$ 415	$ 6,222
2013	-	3,131	5,885	4,324	3,385	6,120
2014	-	3,131	2,190	4,215	1,530	6,074
2015	145	3,125	2,070	4,111	1,580	6,027
2016	435	3,108	1,145	4,054	1,620	5,962
2017-2021	6,125	14,848	11,130	19,136	30,645	26,758
2022-2026	10,645	12,884	20,600	15,443	67,385	10,922
2027-2031	2,760	9,552	25,470	10,468	23,035	1,189
2032-2036	17,995	4,225	31,500	4,309	-	-
Thereafter	26,810	-	7,140	-	-	-
	$ 64,915	$ 57,135	$ 107,340	$ 70,679	$ 129,595	$ 69,274

Year ending June 30:	Construction Loans Principal	Construction Loans Interest	Lease/Leaseback Obligation Principal	Lease/Leaseback Obligation Interest
2012	$ 8,000	$ 630	$ -	$ 3,987
2013	8,000	390	-	4,244
2014	5,000	150	-	4,536
2015	-	-	-	4,834
2016	-	-	-	5,160
2017-2021	-	-	44,375	9,971
Thereafter	88,500	-	-	-
	$ 109,500	$ 1,170	$ 44,375	$ 32,732

Year ending June 30:	2002 SFO Extension Premium Fare Bonds Principal	2002 SFO Extension Premium Fare Bonds Interest	2005 General Obligation Bonds Principal	2005 General Obligation Bonds Interest	2007 General Obligation Bonds Principal	2007 General Obligation Bonds Interest	Total Principal	Total Interest
2012	$ 875	$ 2,617	$ 920	$ 1,801	$ 405	$ 18,270	$ 33,955	$ 58,074
2013	965	2,583	950	1,770	900	18,237	31,115	56,153
2014	1,055	2,532	980	1,737	1,435	18,182	26,940	55,213
2015	1,165	2,474	1,015	1,701	2,010	18,103	23,660	54,273
2016	1,285	2,410	1,050	1,662	2,640	18,000	25,645	53,425
2017-2021	8,435	10,866	5,900	7,603	24,545	87,305	205,800	230,068
2022-2026	12,575	8,177	7,445	5,953	49,190	78,024	227,295	172,056
2027-2031	18,010	4,270	9,440	3,897	83,905	60,915	249,040	108,414
2032-2036	9,080	272	11,895	1,297	132,810	33,135	246,425	47,619
Thereafter	-	-	-	-	76,430	2,187	201,520	2,187
	$ 53,445	$ 36,201	$ 39,595	$ 27,421	$ 374,270	$ 352,358	$ 1,271,395	$ 837,482

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 $7,500,000 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, 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, 2011 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, 2011 and 2010, the estimated amounts of these liabilities were $29,867,000 and $27,645,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal years are as follows (dollar amounts in thousands):

	2011	2010
Liabilities at beginning of year	$ 27,645	$ 29,370
Current year claims and changes in estimates	12,206	11,872
Payments of claims	(9,984)	(13,597)
Liabilities at the end of year	29,867	27,645
Less current portion	(12,735)	(11,333)
Net noncurrent portion	$ 17,132	$ 16,312

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, 2011 and 2010 are summarized as follows (dollar amounts in thousands):

	2011	2010
Total approved project costs	$ 4,090,843	$ 2,716,542
Cumulative amounts of project costs incurred and earned	$ 1,450,320	$ 1,356,936
Less: approved federal allocations received	(1,379,147)	(1,293,344)
Capital grants receivable - Federal	$ 71,173	$ 63,592

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 $22,683,000 in fiscal year 2010 and zero in fiscal year 2011 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 $94,298,000 as of June 30, 2011 and $93,890,000 as of June 30, 2010.

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 assistance received in fiscal years 2011 or 2010. The District received a TDA capital allocation of $2,438,000 in fiscal year 2011 (zero in 2010) of which $119,000 was earned during fiscal year 2011. 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 $19,634,000 in fiscal year 2011 and zero in fiscal year 2010. The District also received STA capital allocations amounting to $1,170,000 awarded in fiscal year 2004 and $971,000 awarded in fiscal year 2011 of which $36,000 was earned during fiscal year 2011 and $176,000 was earned during fiscal year 2010.

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 2011, the District's revenues that relate to the Measure B funds were $1,529,000 ($1,311,000 in fiscal year 2010) for the annual assistance for paratransit operating funds and zero ($44,000 in fiscal year 2010) 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 and $27,000 ($13,000 in fiscal year 2010) for consulting services for the Learn BART Project and zero ($58,000 in fiscal year 2010) from the Contra Costa Transportation Authority Measure J funds for operating expenses.

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. 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. As of June 30, 2011, the balance of the reserve account is as follows (dollar amounts in thousands):

	2011	2010
Reserve account at beginning of year	$ 3,281	$ 2,009
Received/Accrued	6,225	9,095
Add interest earnings	16	7
Total	9,522	11,111
Less: amount used to cover SFO Extension operating shortfall	(2,066)	(7,830)
Reserve account at end of year	$ 7,456	$ 3,281

In accordance with the Tri-Party Financial Agreement, the District recognized contributions in fiscal year 2011 of $5,191,000 from SamTrans ($4,176,000 in fiscal year 2010) and $1,034,000 from MTC ($4,919,000 in fiscal year 2010)

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 has cumulatively received a total $102,062,000 in PTMISEA grant funds to fund various BART capital projects. The grants received are in the form of cash for $96,547,000 and reimbursement grants for $5,515,000.

The following schedules show the changes in activities related to the PTMISEA grant funds during the fiscal years 2011 and 2010 (dollar amounts in thousands):

2011	Grant Fund Balance at Beginning of Year	Grants Received	Project Costs Incurred	Grant Fund Balance at End of Year
eBART Extension	$ 1,938	$ -	$ 1,895	$ 43
Ashby Elevator	475	-	145	330
Station Modernization	44,107	(4,073) **	15,735	24,299
Seismic Retrofit	210	-	(29)	239
Oakland Airport Connector	10,942	5,400 **	14,081	2,261
Warm Springs Extentsion	1,336	-	-	1,336
Balboa West Side Entrance	1,154	-	336	818
Station Signage***	4,886	-	318	4,568
	$ 65,048	$ 1,327	$ 32,481	$ 33,894

2010	Grant Fund Balance at Beginning of Year	Grants Received	Project Costs Incurred	Grant Fund Balance at End of Year
eBART Extension	$ 233	$ 6,000	$ 4,295	$ 1,938
Ashby Elevator	1,879	-	1,404	475
Station Modernization	30,566	21,532	7,991	44,107
Seismic Retrofit	17,671	(12,801) *	4,660	210
Oakland Airport Connector	-	12,801 *	1,859	10,942
Warm Springs Extentsion	-	1,336	-	1,336
Balboa West Side Entrance	-	1,154	-	1,154
Station Signage***	679	4,800	593	4,886
	$ 51,028	$ 34,822	$ 20,802	$ 65,048

* These grants were re-programmed during fiscal year ended June 30, 2010.

** Consists of $5,400,000 grants re-programmed from the Station Modernization project to the Oakland Airport Connector project and a new grant of $1,327,000 received in fiscal year 2011 for the Station Modernization project.

*** This grant is on a reimbursement basis.

As of June 30, 2011 and 2010, the unused portion of grant funds received in cash are shown on the statements of net assets as a component of deferred revenues as follows (dollar amounts in thousands):

	2011	2010
Cash available, end of year	$ 29,326	$ 60,162
Less noncurrent portion	(5,597)	(29,240)
Net current portion	$ 23,729	$ 30,922

At the end of fiscal year 2011, the PTMISEA funds had earned interest income of $1,122,000 from inception, of which $110,000 was earned in fiscal year 2011 and $182,000 in fiscal year 2010.

11. Employees' Retirement Benefits

Plan Description

All eligible employees 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 3,103 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 Plans 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.

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2011 and 2010 was $236,701,000 and $236,436,000, respectively. The District's 2011 and 2010 payroll for all employees was $273,069,000 and $275,151,000, respectively. The District, in compliance with the 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 2011 and 2010 were determined by an actuarial valuation of the Plans as of June 30, 2008 and 2007, respectively. The contribution rates in fiscal year 2011 were 9.446% for the Miscellaneous Plan and 32.321% for the Safety Plan. The contribution rates in fiscal year 2010 for the Miscellaneous Plan were 9.311% from July 1, 2009 to October 18, 2009, increased to 9.680% effective October 19, 2009 to June 30, 2010. For the Safety Plan, the contribution rates in fiscal year 2010 were 33.448% from July 1, 2009 to October 18, 2009 and increased to 33.971%

from October 19, 2009 to June 30, 2010. The increases in the contribution rates within fiscal year 2010 are due to the Plan amendment which provides that an employee's unused sick leave hours at the time of retirement would be converted to CalPERS service credit. The amendments to the Plans were a result of the 2009 collective bargaining agreements with the labor unions.

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, 2009	$ 21,663	100%	-
	June 30, 2010	20,854	100%	-
	June 30, 2011	20,522	100%	-
Safety Plan:	June 30, 2009	6,052	100%	-
	June 30, 2010	6,071	100%	-
	June 30, 2011	5,894	100%	-

Funded Status and Funding Progress of the Miscellaneous Plan

As of June 30, 2010, based on CalPERS most recent actuarial report, the Miscellaneous Plan is 92.9% funded. The actuarial accrued liability for benefits was $1,575,249,000, and the actuarial value of assets was $1,462,840,000, resulting in an unfunded actuarial accrued liability (UAAL) of $112,409,000. The covered payroll (annual payroll of active miscellaneous employees covered by the plan) was $219,269,000, and the ratio of the UAAL to the covered payroll was 51.3%.

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, 2010, based on CalPERS most recent actuarial report, the Safety Plan is 75.5% funded. The actuarial accrued liability for benefits was $197,342,000, and the actuarial value of assets was $148,970,000, resulting in an unfunded actuarial accrued liability (UAAL) of $48,372,000. The covered payroll (annual payroll of active safety employees covered by the plan) was $17,601,000, and the ratio of the UAAL to the covered payroll was 274.8%.

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, 2010	June 30, 2009	June 30, 2008
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; 17 years as of the valuation date for Miscellaneous Plan; and 22 years for the Safety Plan	Closed; 18 years as of the valuation date for Miscellaneous Plan; and 22 years for the Safety Plan	Closed; 13 years as of the valuation date for Miscellaneous Plan; and 22 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	3.55% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan; and 3.55% to 13.15% for the Safety Plan	3.55% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan; and 3.55% 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 which was suspended starting January 2010 as one of the cost-saving measures implemented by the District in fiscal year 2010. 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, 2011 and 2010 were $5,706,000 and $6,019,000, respectively. The Money Purchase Pension Plan assets at June 30, 2011 and 2010 (excluded from the accompanying financial statements) per the plan administrator's unaudited report were $260,388,000 and $233,847,000, respectively. At June 30, 2011, there were approximately 295 (279 in 2010) 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 certain other postemployment benefits ("OPEB") to employees, which may 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 compliance with GASB requirements, the District accounts for OPEB on an accrual basis and created the Trust, an irrevocable 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 is funding 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, in fiscal year 2009 the District contributed into the Trust a lump sum make up payment reflecting the amounts it would have contributed for fiscal years 2006 and 2007, which was actuarially calculated at $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.

Funding Policy The actuarially calculated ARC for fiscal year 2011, as a percent of covered payroll for the year, are 11.77% (14.01% in fiscal year 2010) for retiree medical benefits and 0.80% (0.95% in fiscal year 2010) for additional OPEB, which amounted to $28,135,000 and $1,894,000, respectively ($35,276,000 and $2,258,000 in fiscal year 2010). In fiscal year 2011, the District contributed cash to the Trust amounting to $11,291,000 for the retiree medical benefits and zero for the additional OPEB to partially fund the OPEB cost for the year. In fiscal year 2010, the District contributed cash to the Trust amounting to $11,532,000 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 2011 on a pay-as-you-go basis, net of retirees' and surviving spouses' share, medical insurance premiums totaling $13,272,000 for 1,641 retirees and surviving spouses ($11,534,000 for 1,558 retirees and surviving spouses in fiscal year 2010) and life insurance premiums amounting to $81,000 ($61,000 in fiscal year 2010). The District does not charge any administration cost to the Trust. Currently, the retiree pays $86.95 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 2011 and 2010 (dollar amounts in thousands):

Retiree Medical Benefits

	2011	2010
Annual Required Contribution (ARC)	$ 28,135	$ 35,276
Interest on net OPEB obligation	2,316	1,492
Adjustments to ARC	(2,316)	(1,492)
Annual OPEB Cost	28,135	35,276
Contributions made	(24,563)	(23,066)
Increase in Net OPEB obligation	3,572	12,210
Net OPEB obligation, beginning of year	34,309	22,099
Net OPEB obligation, end of year	$ 37,881	$ 34,309

Additional OPEB

	2011	2010
Annual Required Contribution (ARC)	$ 1,894	$ 2,258
Interest on net OPEB obligation	279	186
Adjustments to ARC	(279)	(186)
Annual OPEB Cost	1,894	2,258
Contributions made	(81)	(60)
Increase in Net OPEB obligation	1,813	2,198
Net OPEB obligation, beginning of year	6,564	4,366
Net OPEB obligation, end of year	$ 8,377	$ 6,564

The total net OPEB obligations of $46,258,000 in fiscal year 2011 and $40,873,000 in fiscal year 2010 are shown on the statements of net assets as a component of accounts payable and other liabilities.

The three-year trend for the OPEB costs and net OPEB obligation follows (dollar amounts in thousands):

	Year Ended	OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
Retiree Medical Benefits	June 30, 2009	$ 40,741	92%	$ 22,099
	June 30, 2010	35,276	65%	34,309
	June 30, 2011	28,135	87%	37,882
Additional OPEB	June 30, 2009	2,106	7%	4,366
	June 30, 2010	2,258	3%	6,564
	June 30, 2011	1,894	4%	8,377

At June 30, 2011, assets held in the Trust included investment in money market mutual funds, U.S. Treasury obligations, corporate obligations, miscellaneous obligations, foreign obligations, foreign stocks, equity mutual funds and domestic common stocks with an aggregate fair value of $133,740,000 ($91,204,000 in 2010). 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, 2010, based on Keenan and Associates (Keenan)'s most recent actuarial report, the Retiree Medical Plan is 25.5% funded. The actuarial accrued liability for benefits was $347,058,000, and the actuarial value of assets was $88,456,000, resulting in an unfunded actuarial accrued liability (UAAL) of $258,602,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) was $236,436,000, and the ratio of the UAAL to the covered payroll was 109.4%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents the 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, 2010, based on Keenan's most recent actuarial report, the Additional OPEB Plan is zero percent funded. The actuarial accrued liability for benefits was $25,305,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $25,305,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) was $236,436,000, and the ratio of the UAAL to the covered payroll was 10.7%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents the 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 Keenan in March 2011 using District data as of June 30, 2010. The actuarial valuation for June 30, 2009 was also performed by Keenan. The actuarial valuation for June 30, 2008 was done by another actuarial company, Mercer. A summary of principal assumptions and methods used by Keenan/Mercer to determine the District's annual required contributions to the OPEB plans is shown below:

Valuation Date	June 30, 2010	June 30, 2009	June 30, 2008
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	24 years	25 years	26 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; 4.25% for the additional OPEB
Inflation rate	3.00%	3.00%	3.00%
Payroll growth rate	0% through 2012-2013; then 3.25% per year	3.25%	3.75%
Health care cost trend rate for the first year	7.50%	8.00%	10.50%
Ultimate trend rate	4.00%	4.00%	5.00%
Year that rate reaches the ultimate rate	2019	2019	2024

14. Board of Directors' Expenses

Total Directors' expenses, consisting of travel and other business related expenses for the years ended June 30, 2011 and 2010 amounted to $36,000 and $29,000, 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 and was not renewed. 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, before it was terminated, was 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.

On the termination of the Agreement effective August 2, 2010, the Authority has an asset in the form of a receivable from the District for $45,573,000, and a liability in the form of a debt to MTC for $45,573,000, resulting in a zero net asset. Both the Authority's asset and liability relate to the balance of the loans extended by MTC to the Authority for use by the District for the construction of the San Francisco International Airport Extension. Both asset and liability were absorbed by the District effective upon the termination of the Agreement.

The Agreement also stated that 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. Upon termination, the Authority did not have any surplus money that needed to be returned to the participants.

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 $4,285,000 for marketing and administrative services during 2011 and $3,368,000 during 2010. 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 $6,125,000 and $8,071,000 as of June 30, 2011 and 2010, 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.

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, except the program coordinator's expenses which are split 50/50 starting in 2011. 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 and from the Contra Costa Transportation Authority Measure J 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.

On June 30, 2009, the District 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. Special Item – Termination of the 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 was 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 $41,973,000. The total project expenditures through June 30, 2011 for Phase 2 and Phase 3 amount to $93,120,000 ($92,886,000 in 2010). The total cost of $93,120,000 was funded by federal grants ($47,391,000), state grants ($4,728,000), MTC bridge toll allocations ($1,219,000) and the District's own funds ($39,782,000).

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 was set for August 2010, but taken off the calendar when the parties agreed to settle the matter following mediation by former California Supreme Court Justice Panelli.

In December 2010, a Settlement Agreement and Mutual Release was executed between the District and the contractor which terms included a full and final release of all claims the District and the contractor now have or in the future may have against each other and a payment of $40,000,000 by the contractor to the District.

The District had also determined that Phase 2 and Phase 3 of the AATC system being based on an obsolete technology cannot be used successfully in the train operations and had consequently decided to write off the cost of the asset amounting to $93,120,000, less a salvage value of $6,686,000 for a net write off amount of $86,434,000. The salvage value consists of the costs of some wayside-based equipment, office furniture and computer software and equipment. The net loss on termination of capital project amounted to $53,194,000 which has been classified as a special item in the Statement of Revenues, Expenses and Changes in Net Assets calculated as follows (in thousands):

Total cost of the asset	$ 93,120
Add (Less):	
Salvage value	(6,686)
Settlement payment received	(40,000)
Settlement legal expenses	6,760
Net loss from termination of a capital asset	$ 53,194

18. 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.

Power Purchases
The District purchases electrical power for self-consumption at multiple points of delivery such as Traction Power, Passenger Station Power and Miscellaneous Power. The District has committed to a maximum capacity load of 83MW provided by Northern California Power Agency (NCPA) and 14MW provided by Western Area Power Administration (Western) through December 31, 2016.

Lease Commitments
The District leases certain facilities under operating leases with original terms ranging from one to fifty 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, 2011 are as follows (dollar amounts in thousands):

Year ending June 30:	**Operating Leases**
2012	$ 6,999
2013	10,754
2014	10,759
2015	10,714
2016	10,877
2017-2021	55,123
2022-2026	12,911
2027-2031	12,500
2032-2036	12,500
2037-2041	12,500
2042-2046	12,500
2047-2051	12,500
2052-2053	4,792
Total minimum rental payments	$ 185,429

Rent expenses under all operating leases were $11,121,000 and $11,093,000 for the years ended June 30, 2011 and 2010, 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 initial 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.

In October 2010, there was a second amendment to the ground lease agreement which recalculated the initial Rent Credit available to FDC as related to the replacement parking. The amount of the Replacement Parking Rent Credit was revised to $4,641,721, after a payment of $5,500,000 coming from the proceeds of the sale of land at the Fruitvale BART Station to the City of Oakland Redevelopment

Agency. The second amendment also stated that no interest shall accrue on the revised Replacement Parking Rent Credit and that beginning on December 1, 2003 and continuing throughout the term of the ground lease, base rent shall be subtracted from the Replacement Parking Rent Credit balance, until there is no longer a positive Replacement Parking Rent Credit. The offset base rent from December 1, 2003 through June 30, 2011 was calculated at $875,622, which results in a remaining balance of $3,766,099 in the Replacement Parking Rent Credit as of June 30, 2011. The balance of the initial Rent Credit as of June 30, 2010, inclusive of all interest earnings and base rent offsets from inception through fiscal year 2010 was $9,073,000.

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 the Replacement Parking Rent Credit still has a positive balance.

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 terminated on 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. As of June 30, 2011 and 2010, the deferred gain recorded by the District is $1,484,000 and $1,539,000 respectively.

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. As of June 30, 2011 and 2010, the remaining principal balance is $44,375,000 and $49,568,000 respectively.

19. Subsequent Event

In August 2011, Standard & Poor's lowered its long-term credit rating from AAA to AA+ on debt of the U.S. government, U.S. government-sponsored enterprises, and public debt issues that have credit enhancement guarantees by U.S. government sponsored enterprises. These credit downgrades relate to the credit risk associated with the District's investments in U.S. Treasury Notes and Government Securities Money Market Mutual Funds. However, Moody's and Fitch have both retained the credit ratings of Aaa and AAA, respectively.

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 Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll (%)
6/30/08	$ 1,391,792	$ 1,349,563	$ 42,229	97.0	$ 218,889	19.3
6/30/09	1,520,140	1,405,192	114,948	92.4	222,864	51.6
6/30/10	1,575,249	1,462,840	112,409	92.9	219,269	51.3

Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll (%)
6/30/08	$ 164,993	$ 131,846	$ 33,147	79.9	$ 17,721	187.0
6/30/09	183,177	140,580	42,597	76.7	18,373	231.8
6/30/10	197,342	148,970	48,372	75.5	17,601	274.8

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 (%)
6/30/08	$ 413,300	$ 48,500	$ 364,900	11.7	$ 238,800	152.8
6/30/09	335,118	68,087	267,031	20.3	242,071	110.3
6/30/10	347,058	88,456	258,602	25.5	236,436	109.4

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 (%)
6/30/08	$ 20,600	$ -	$ 20,600	0.0	$ 238,800	8.6
6/30/09	27,297	-	27,297	0.0	242,071	11.3
6/30/10	25,305	-	25,305	0.0	236,436	10.7