SAN FRANCISCO BAY AREA
RAPID TRANSIT DISTRICT

Annual Financial Report

For the Years Ended June 30, 2012 and 2011

MGO Certified Public Accountants.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
ANNUAL FINANCIAL REPORT
For the Years Ended June 30, 2012 and 2011

Table of Contents

MGO Certified Public Accountants.

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the San Francisco Bay Area Rapid Transit District (the District) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to previously 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, 2012 and 2011, and the respective changes in 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 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 for the year ended June 30, 2012. 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Macias Gini & O'Connell LLP

Oakland, California
December 28, 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, 2012 and 2011. 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, 44-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 2012, 2011 and 2010 is as follows (dollar amounts in thousands):

	2012	2011	2010
Operating revenues	$ 401,855	$ 376,744	$ 368,586
Operating expenses, net	(667,628)	(630,226)	(647,839)
Operating loss	(265,773)	(253,482)	(279,253)
Nonoperating revenues, net	237,875	222,777	232,380
Capital contributions	355,462	331,912	252,515
Special item: loss on termination of capital project	-	(53,194)	-
Change in net assets	327,564	248,013	205,642
Net assets, beginning of year	5,062,478	4,814,465	4,608,823
Net assets, end of year	$ 5,390,042	$ 5,062,478	$ 4,814,465

Operating Revenues

In fiscal year 2012, operating revenues increased by $25,111,000, which is primarily due to (1) an increase of $23,785,000 in passenger fares largely due to a 6.38% increase in average weekly ridership from 345,000 in fiscal year 2011 to 367,000 in fiscal year 2012; and (2) an increase of $1,269,000 in parking revenues mainly coming from the nonreserved daily parking users.

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 nonreserve 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 fiscal year 2010, none in fiscal year 2011, such as revenues from the settlement of a land swap transaction and insurance proceeds.

Operating Expenses, Net

In fiscal year 2012, operating expenses, net, increased by $37,402,000, which is primarily due to (1) an increase of $14,536,000 in employees' salaries and benefits coming from overtime pay for increased operational needs ($4,241,000), increase in medical health insurance expense primarily due to increase of about 9% in medical insurance premiums ($4,085,000) and PERS contributions due to increases in employer contribution rates ($6,210,000); (2) an increase of $6,910,000 in self-insurance reserves, mostly for workers' compensation due to increase in claim frequency as well as increase in the number of claims over $100,000; (3) an increase of $4,768,000 in services and materials used to keep the system in a good state of repairs; (4) an increase in Clipper fees of $3,722,000 due to the continuing increase among the rail passengers on the use of Clipper tickets; and (5) an increase of $5,913,000 in professional and technical fees most of which were related to the post-implementation services needed for the new financial reporting system.

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 postemployment benefits from 14.96% to 12.57%, which amounted to $7,505,000; (3) a $6,687,000 increase in capitalized employee salaries and benefits related to 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.

Nonoperating Revenues, Net

Nonoperating revenues, net, increased by $15,098,000 in fiscal year 2012, which is largely due to (1) an increase in the sales tax revenues of $14,395,000 due to the improving economy in the Bay Area; (2) an increase of $3,765,000 in property tax revenues earmarked for the payment of the General Obligation Bonds, which equals the increase in the scheduled 2012 bond debt service payment; and offset by (3) a net decrease comprised of an increase of $21,760,000 in operating financial assistance offset by a $25,940,000 contribution for the BART car replacement funding program, which results in a net decrease of $4,180,000 primarily related to debt service contributions from the local District funding partners on the Dublin/Pleasanton Extension project.

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 preventive 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.

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 2012, the revenues from capital contributions increased by $23,550,000 most of it coming from an increase of $23,044,000 in the local funding received from the Alameda County Transportation Improvement Authority to fund the construction of the Warm Springs Extension and the Oakland Airport Connector projects.

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.

The major additions in fiscal years 2012 and 2011 to capital projects are detailed on page 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 16). There is no special item in fiscal year 2012.

Statements of Net Assets

A comparison of the District's *Statements of Net Assets* as of June 30, 2012, 2011 and 2010 is as follows (dollar amounts in thousands):

	2012	2011	2010
Current Assets	$ 1,000,432	$ 955,259	$ 669,894
Noncurrent assets - capital assets, net	6,077,309	5,726,847	5,505,992
Noncurrent assets - other	132,918	134,081	431,738
Total Assets	7,210,659	6,816,187	6,607,624
Current liabilities	385,592	306,837	306,162
Noncurrent liabilities	1,435,025	1,446,872	1,486,997
Total liabilities	1,820,617	1,753,709	1,793,159
Net Assets			
Invested in capital assets, net of related debt	5,067,636	4,765,595	4,561,307
Restricted net assets	169,128	133,389	98,380
Unrestricted net assets	153,278	163,494	154,778
Total net assets	$ 5,390,042	$ 5,062,478	$ 4,814,465

Current Assets

In fiscal year 2012, current assets increased by $45,173,000 mainly due to (1) an increase of $137,887,000 on the receivables from funding agencies for reimbursements of paid and accrued capital project expenditures due to increased project activity and timing in submission of invoices; offset by (2) a decrease of $95,277,000 in cash, cash equivalents and investments. Please refer to page 10 for further discussions about cash, cash equivalents and investments.

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 primarily due to timing in submission of invoices.

Noncurrent Assets - Other

In fiscal year 2012, noncurrent assets – other showed a small decrease of $1,163,000, which is mainly due to the advance payment in fiscal year 2013 of the full principal amount ($1,363,000) of the notes receivable from real estate installment sales. Because of this advance payment, the notes receivable was shown as current assets – other in fiscal year 2012.

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.

Current Liabilities

In fiscal year 2012, current liabilities showed an increase of $78,755,000, which is primarily due to the following: (1) an increase in payables to vendors and contractors of $43,657,000 due to the timing of receiving and paying their invoices; (2) an increase of $4,903,000 in the current portion of long-term debt; (3) an increase of $37,283,000 in the current portion of advances from grantors due to new advances received in fiscal year 2012 from Proposition 1B PTMISEA allocations; and offset by (4) a decrease of $8,221,000 in payables to employees for salaries and benefits due to the timing of remitting the payroll taxes and deferred compensation withheld from employees' salaries and a decrease in temporary overdraft in the payroll direct deposit bank account.

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.

Noncurrent Liabilities

In fiscal year 2012, noncurrent liabilities decreased by $11,847,000, which is principally attributed to (1) a net decrease of $27,753,000 in long-term debt because of (a) principal payments amounting to $25,955,000, (b) an increase of $4,903,000 in the current portion of long-term debt, (c) a decrease of $625,000 in debt related items; offset by (d) an increase in the lease/leaseback obligation of $3,730,000 due to accretion; (2) an increase of $11,045,000 in the noncurrent portion of the advances received from grantors due to new advances received in fiscal year 2012; (3) an increase of $6,272,000 in the self-insurance reserve for workers' compensation to align the reserve to the amount recommended by the actuarial report; (4) a decrease of $1,484,000 in the noncurrent portion of the deferred gain on the lease/leaseback obligation; and (5) increase of $3,466,000 in postemployment benefits.

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 postemployment benefits liability; and (5) an increase of $820,000 in the self-insurance reserves for general liability and workers' compensation.

Capital Assets

Details of the capital assets, net of accumulated depreciation, as of June 30, 2012, 2011 and 2010 are as follows (dollar amounts in thousands):

	2012	2011	2010
Land	$ 544,874	$ 544,874	$ 545,162
Stations, track, structures and improvements	3,069,628	3,015,489	2,979,381
Buildings	8,470	8,604	8,776
Revenue transit vehicles	266,561	313,147	359,829
Other	353,679	370,275	368,722
Construction in progress	1,834,097	1,474,458	1,244,122
Total capital assets	$ 6,077,309	$ 5,726,847	$ 5,505,992

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $1,149,567,000 at June 30, 2012 and $992,195,000 at June 30, 2011.

The District's capital assets, before accumulated depreciation and net of retirements, showed a net increase of $486,537,000 in 2012 and $373,759,000 in 2011. 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 16). 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 $436,933,000 in 2012 and $375,352,000 in 2011;
- train control equipment totaling $9,095,000 in 2012 and $13,699,000 in 2011;
- revenue transit vehicles in the amount of $14,657,000 in 2012 and $23,465,000 in 2011;
- automatic fare collection and other equipment amounting to $21,635,000 in 2012 and $19,184,000 in 2011; and
- Business Advancement Plan (BAP) which is a project to replace the information technology systems supporting the District's administrative business totaling $1,952,000 in 2012 and $11,196,000 in 2011.

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 $22,225,000 in fiscal year 2012 and $41,531,000 in fiscal year 2011. Below is a summary of total long-term debt as of June 30, 2012, 2011 and 2010 (dollar amounts in thousands):

	2012	2011	2010
Bonds payable from and collateralized by a pledge of sales tax revenues	$ 626,455	$ 650,210	$ 672,750
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	21,000	29,000
Lease/leaseback obligation, including accumulated accretion, for rail traffic control equipment	61,024	57,294	61,355
Bonds payable from the premium fare imposed on the passengers who board on or depart from the San Francisco International Airport Station	52,570	53,445	54,240
General obligation bonds	412,540	413,865	420,000
Total long-term debt	$ 1,262,089	$ 1,284,314	$ 1,325,845

There were no additions to long-term debt in fiscal year 2012.

The decrease of $22,225,000 in long-term debt in 2012 and $41,531,000 in 2011, is mainly due to the decrease in the scheduled principal payments and amortization.

On January 19, 2012, Fitch Ratings (Fitch) downgraded the District's sales tax revenue bonds to "AA" from "AA+" and downgraded the District's general obligation bonds to "AA+" from "AAA".

Statements of Cash Flows/Cash, Cash Equivalents and Investments

A comparative presentation of the major sources and uses of cash for fiscal years 2012, 2011 and 2010 is as follows (dollar amounts in thousands):

	2012	2011	2010
Net cash used in operating activities	$ (102,418)	$ (109,803)	$ (122,175)
Net cash provided by noncapital financing activities	220,260	183,568	201,096
Net cash used in capital and related financing activities	(217,760)	(143,283)	(235,463)
Net cash provided by investing activities	180,187	328,186	206,117
Net change in cash and cash equivalents	80,269	258,668	49,575
Cash and cash equivalents, beginning of year	511,673	253,005	203,430
Cash and cash equivalents, end of year	591,942	511,673	253,005
Investments, end of year	67,560	243,631	560,545
Cash, cash equivalents and investments, end of year	$ 659,502	$ 755,304	$ 813,550

Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments decreased by $95,802,000 in fiscal year 2012. The decrease is mainly attributed to (1) the use of the proceeds from the general obligation bonds amounting to $79,055,000 to pay for the costs of the seismic retrofit project; (2) increase in grants receivables from the District's funding partners for the reimbursement of capital expenditures, which the District had paid amounting to $114,614,000; offset by (3) an increase of $46,643,000 in cash received as advances from grantors mostly from Proposition 1B PTMISEA allocations; (4) increases from net earnings earmarked for capital projects ($37,479,000) and for operating reserves ($5,766,000); and (5) for the self-insurance reserves for general liability and workers' compensation ($7,525,000).

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.

Economic Factors and Next Year's Budgets

On June 14, 2012, the District's Board of Directors approved a balanced operating budget of $672,058,000 and a capital budget of $869,236,000 for fiscal year 2013.

The District has seen growth in ridership and sales tax revenues over the past two years as the Bay Area recovered from the recession. Because of the revenue growth combined with control of cost increases, the District has an opportunity to invest in the future to fund core system capital infrastructure needs. Although the operating outlook has improved, the capital funding picture continues to be constrained, with capital needs far exceeding funding sources. As it is, a considerable challenge remains to fund the District's capital program.

The fiscal year 2013 operating budget includes a total of $45,600,000 directed to the Rail Car Sinking Fund, which will make up a part of the District's initial commitment of $298,000,000 for its share of the Phase 1 purchase of 410 new rail cars. The budget also funds state of good repair needs, including continuing the program to replace seats and floors in the current fleet, computer security hardware, funding for local match on capital grants, stations and facilities renovation, equipment and other funding requirements not typically eligible for grants.

While the capital budget is largely funded through federal and other capital grants, District-allocated funds are essential for required local match, equipment and inventory needs, and state of good repair expenditures which do not qualify for grants, including stations and facilities renovation. The largest program areas for capital expenditure next year will be system expansion and system renovation which include the rail car replacement program, station modernization, train control, traction power, trackway renovation and other capital projects. System expansion projects include the eBART, Oakland Airport Connector, Warm Springs and the Silicon Valley extension programs, and continuing studies and analysis on options for the Livermore/I-580 corridor. Work will also continue on essential security upgrades, life safety improvements, and ADA/system accessibility improvements.

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, 2012 and 2011
(dollar amounts in thousands)

	2012	2011
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 89,106	$ 118,320
Investments	386	69,115
Capital grants receivable	356,854	218,967
Receivables and other assets	24,152	21,414
Materials and supplies	26,832	27,007
Total unrestricted current assets	497,330	454,823
Restricted assets		
Cash and cash equivalents	502,836	393,353
Investments	266	107,083
Total restricted current assets	503,102	500,436
Total current assets	1,000,432	955,259
Noncurrent assets		
Capital assets		
Nondepreciable	2,378,971	2,019,332
Depreciable, net of accumulated depreciation	3,698,338	3,707,515
Unrestricted assets		
Investments	22,620	22,620
Receivables and other assets	10,103	12,038
Restricted assets		
Investments	44,288	44,813
Receivables and other assets	31,342	30,045
Deposits for sublease obligation	24,565	24,565
Total noncurrent assets	6,210,227	5,860,928
Total assets	7,210,659	6,816,187
Liabilities		
Current liabilities		
Accounts payable and other liabilities	255,371	220,055
Current portion of long-term debt	39,115	34,212
Self-insurance liabilities	13,988	12,735
Deferred revenue	77,118	39,835
Total current liabilities	385,592	306,837
Noncurrent liabilities		
Accounts payable and other liabilities	69,447	68,891
Long-term debt, net of current portion	1,237,598	1,265,351
Self-insurance liabilities, net of current portion	23,404	17,132
Deferred revenue	104,576	95,498
Total noncurrent liabilities	1,435,025	1,446,872
Total liabilities	1,820,617	1,753,709
Net assets		
Invested in capital assets, net of related debt	5,067,636	4,765,595
Restricted net assets		
for debt service and other liabilities	169,128	133,389
Unrestricted net assets	153,278	163,494
Total net assets	$ 5,390,042	$ 5,062,478

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, 2012 and 2011
(dollar amounts in thousands)

	2012	2011
Operating revenues		
Fares	$ 367,342	$ 343,472
Other	34,513	33,272
Total operating revenues	401,855	376,744
Operating expenses		
Transportation	167,742	160,535
Maintenance	214,196	197,215
Police services	50,365	47,691
Construction and engineering	17,821	19,856
General and administrative	134,472	121,433
Depreciation	138,010	138,819
Total operating expenses	722,606	685,549
Less - capitalized costs	(54,978)	(55,323)
Net operating expenses	667,628	630,226
Operating loss	(265,773)	(253,482)
Nonoperating revenues (expenses)		
Transactions and use tax - sales tax	195,214	180,819
Property tax	49,874	46,109
Operating financial assistance	49,894	28,134
Contribution for BART car replacement funding exchange program	(25,940)	-
Investment income	11,023	11,695
Interest expense	(43,247)	(45,503)
Other income, net	1,057	1,523
Total nonoperating revenues, net	237,875	222,777
Change in net assets before capital contributions and special item	(27,898)	(30,705)
Capital contributions	355,462	331,912
Special item: loss on termination of a capital project	-	(53,194)
Change in net assets	327,564	248,013
Net assets, beginning of year	5,062,478	4,814,465
Net assets, end of year	$ 5,390,042	$ 5,062,478

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, 2012 and 2011
(dollar amounts in thousands)

	2012	2011
Cash flows from operating activities		
Receipts from customers	$ 361,881	$ 341,985
Payments to suppliers	(116,237)	(135,053)
Payments to employees	(379,343)	(348,087)
Other operating cash receipts	31,281	31,352
Net cash used in operating activities	(102,418)	(109,803)
Cash flows from noncapital financing activities		
Transactions and use tax (sales tax) received	145,134	125,106
Property tax received	28,702	30,508
Financial assistance received	46,424	27,954
Net cash provided by noncapital financing activities	220,260	183,568
Cash flows from capital and related financing activities		
Transactions and use tax (sales tax) received	50,080	55,713
Property tax received	19,908	16,502
Capital grants received	276,785	256,127
Expenditures for facilities, property and equipment	(499,425)	(427,099)
Principal paid on long-term debt	(25,955)	(37,470)
Payments of long-term debt issuance and service costs	(19)	(67)
Interest paid on long-term debt	(40,261)	(40,807)
Principal payments received from notes receivable	128	78
Deposit refunded Lodi Power Plant	999	500
Legal settlement fees	-	(6,760)
Proceeds from legal settlement	-	40,000
Net cash used in capital and related financing activities	(217,760)	(143,283)
Cash flows from investing activities		
Proceeds from sale and maturity of investments	179,073	886,575
Purchase of investments	(3,002)	(569,661)
Investment income	4,116	11,272
Net cash provided by investing activities	180,187	328,186
Net change in cash and cash equivalents	80,269	258,668
Cash and cash equivalents, beginning of year	511,673	253,005
Cash and cash equivalents, end of year	$ 591,942	$ 511,673
Reconciliation of cash and cash equivalents to the Statements of Net Assets		
Current, unrestricted assets - cash and cash equivalents	$ 89,106	$ 118,320
Current, restricted assets - cash and cash equivalents	502,836	393,353
Total cash and cash equivalents	$ 591,942	$ 511,673

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, 2012 and 2011
(dollar amounts in thousands)

	2012	2011
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (265,773)	$ (253,482)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	138,010	138,819
Amortization of deferred settlement costs	144	316
Net effect of changes in		
Receivables and other assets	(905)	(4,839)
Materials and supplies	175	1,524
Accounts payable and other liabilities	18,498	7,861
Self-insurance liabilities	7,525	2,221
Deferred revenue	(92)	(2,223)
Net cash used in operating activities	$ (102,418)	$ (109,803)
Noncash transactions		
Capital assets acquired with a liability at year-end	$ 74,941	$ 85,105
Adjustment to correct understatement of construction in progress and accumulated depreciation	-	14,513
Special item: termination of a capital project	-	46,434
Lease/leaseback obligation additions	1,855	2,038
Lease/leaseback obligation amortization	-	7,751
Reduction in capital lease receivable and liability	-	1,577
Decrease in fair value of investments	(2,563)	(1,898)
Amortization of long-term debt premium, discount and issue costs	(1,573)	(1,361)
Amortization of deferred loss on early debt retirement	1,410	1,410
Amortization of deferred gain on lease/leaseback transaction	1,537	1,537
Amortization of deferred ground lease	534	558

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, 2012 and 2011
(dollar amounts in thousands)

	2012	2011
Assets		
Cash and cash equivalents	$ 857	$ 169
Receivables and other assets	481	803
Pending trades receivable	4,178	956
Investments		
Domestic common stocks	52,756	46,090
U.S. Treasury obligations	22,880	37,252
Money market mutual funds	7,969	9,438
Mutual funds - equity	34,694	29,965
Corporate obligations	20,737	9,931
Miscellaneous obligations	-	130
Foreign stocks	785	848
Foreign obligations	1,381	86
Total investments	141,202	133,740
Total assets	146,718	135,668
Liabilities		
Accounts payable	75	82
Pending trades payable	7,710	15,481
Total liabilities	7,785	15,563
Net assets held in trust for retiree health benefits	$ 138,933	$ 120,105

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, 2012 and 2011
(dollar amounts in thousands)

	2012	2011
Additions		
Employer contributions		
Cash contributions	$ 10,100	$ 11,291
Pay-as-you-go contributions	14,516	13,272
Total employer contributions	24,616	24,563
Investment income (expense)		
Interest income	2,880	2,254
Realized gain	3,298	6,939
Net appreciation in fair value of investments	2,835	11,463
Investment expense	(238)	(247)
Net investment income	8,775	20,409
Total additions	33,391	44,972
Deductions		
Pay-as-you-go benefit payments	14,516	13,272
Legal fees	6	10
Audit fees	18	17
Insurance expense	23	24
Total deductions	14,563	13,323
Increase in trust net assets	18,828	31,649
Net assets held in trust for retiree health benefits		
Beginning of year	120,105	88,456
End of year	$ 138,933	$ 120,105

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, when the Transit Financing Authority (the "Authority") was still in operation and providing services almost entirely to the District, the primary government, the Authority's financial information was presented as a blended component unit of the District's financial statements. In fiscal year 2011, when the Authority was terminated, the District absorbed in its financial statements the assets and liabilities of the Authority (Note 14).

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 8 and 9).

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 $13,197,000 in fiscal year 2012 and $12,776,000 in fiscal year 2011.

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 6); (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 15).

Compensated Absences

Compensated absences are reported and accrued as a liability in the period incurred. Compensated absences have a total balance of $57,867,000 as of June 30, 2012 and $57,665,000 as of June 30, 2011 and is shown in the statements of net assets in accounts payable and other liabilities as follows (dollar amounts in thousands):

	2012	2011
Current liabilities	$ 19,171	$ 18,888
Noncurrent liabilities	38,696	38,777
Total	$ 57,867	$ 57,665

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. 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 nonoperating 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 8 and 9).

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 $54,978,000 and $55,323,000 were capitalized during the years ended June 30, 2012 and 2011, 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 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 November 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 March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards for certain items that were previously reported as assets and liabilities. These items will be reclassified as deferred outflows of resources or deferred inflows of resources. This statement also amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in GASB Concepts Statement 4. Application of this statement is effective for the District's fiscal year ending June 30, 2014.

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 - An Amendment of GASB Statements No. 10 and No. 62*. The portion of the statement, which may have applicability to the District, enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement modifies the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. Application of this statement is effective for the District's fiscal year ending June 30, 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The significant changes in this statement address (1) the measurement and reporting of pension obligations associated with defined benefit pension plans and (2) the calculations of pension expense. GASB 68 also covers:

- Reporting of deferred outflows and deferred inflows of resources;
- Methods and assumptions of pension calculations, including how to calculate the discount rate to be used and how to attribute the pension liability to various periods;
- Note disclosure and required supplementary information; and
- Defined contribution pension plan reporting.

Application of this statement is effective for the District's fiscal year ending June 30, 2015.

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):

	2012			2011		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Current assets						
Cash and cash equivalents	$ 89,106	$ 502,836	$ 591,942	$ 118,320	$ 393,353	$ 511,673
Investments	386	266	652	69,115	107,083	176,198
Noncurrent assets						
Investments	22,620	44,288	66,908	22,620	44,813	67,433
Total	$ 112,112	$ 547,390	$ 659,502	$ 210,055	$ 545,249	$ 755,304

Investment Policy

The California Public Utilities Code, Section 29100, and the California Government Code (CGC), 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 following table presents the authorized investment, requirements, and restrictions per the CGC and the District's investment policy:

Investment Type	Maximum Maturity (1)		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating (2)	
	CGC	District	CGC	District	CGC	District	CGC	District
U.S. Treasury Obligations (bills, bonds, or notes)	5 years	5 years	None	None	None	None	None	None
U.S. Agencies	5 years	5 years	None	None	None	None	None	None
Bankers' Acceptances	180 days	180 days	40%	40%	30%	30%	None	None
Commercial Paper (3)	270 days	270 days	25%	25%	10%	10%	P1	P1
Negotiable Certificates	5 years	5 years	30%	30%	None	None	None	None
Repurchase Agreements	1 year	1 year	None	None	None	None	None	None
Reverse Repurchase Agreements	92 days	90 days	20%	20%	None	None	None	None
Local Agency Investment Fund	N/A	N/A	None	(4)	None	None	None	None
Non-Negotiable Time Deposits	5 years	5 years	30%	30%	None	None	None	None
Medium Term Notes/Bonds (3)	5 years	5 years	30%	30%	None	None	A	A
Municipal Securities of California Local Agencies	5 years	5 years	None	None	None	None	None	None
Mutual Funds	N/A	N/A	20%	(4)	10%	10%	AAA	AAA
Notes, Bonds, or Other Obligations	5 years	5 years	None	None	None	None	None	None
Mortgage Pass-Through Securities	5 years	5 years	20%	20%	None	None	AAA	AAA
Financial Futures (3)	N/A	N/A	None	None	None	None	None	None

Footnotes
(1) In the absence of a specified maximum, the maximum is 5 years.
(2) Minium credit rating categories include modifications (+/-).
(3) District will not invest in these investment types unless specifically authorized by the Board.
(4) District may invest in an amount not to exceed $25,000,000.

Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds and funds set aside for debt service. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Securities of the U.S. Government and its agencies	None	None	None	None
Housing Authority Bonds or project notes issued by public agencies or municipalities fully secured by the U.S.	None	None	None	None
Obligations of any state, territory, or commonwealth of the U.S. or any agency or political subdivisions thereof	None	Aa1/AA+	None	None
Collateralized time deposits	None	A-1	None	None
Commercial paper	None	Aaa/AAA	None	None
Repurchase agreements	None	None	None	None
Money market mutual funds	None	None	None	None
Investment agreements	None	Aa1/AA+	None	None
Other investments approved by the Board that will not adversely affect ratings on bonds	None	None	None	None
Corporate bonds, notes, and debentures	None	Aa1/AA+	None	None
Local Agency Investment Fund	None	None	None	None

The District does not have any amounts invested in the State of California Local Agency Investment Fund ("LAIF") in fiscal year 2012. In fiscal year 2011, the District's investments included $20,000,000 investment in LAIF. The total amount invested by all public agencies in LAIF is $24.0 billion at June 30, 2011. LAIF is part of the State of California Pooled Money Investment Account ("PMIA"), whose balance at June 30, 2011 was $66.5 billion. Of this amount, 5.01% was invested in structured notes and asset-backed securities and the remaining balance was invested in non-derivative instruments as of June 30, 2011. 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 as of June 30, 2011. 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, except as outlined in the California Government Code. A summary of investments by type of investments and by segmented time distribution as of June 30, 2012 and 2011 is as follows (dollar amounts in thousands):

	2012	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 - 5	6 - 10
Money market mutual funds	$ 309,308	$ 309,308	$ -	$ -
U.S. government agencies	30,087	4,403	421	25,263
Repurchase agreements	36,822	-	36,822	-
Total investments	376,217	$ 313,711	$ 37,243	$ 25,263
Deposits with banks	279,897			
Certificates of deposit	652			
Imprest funds	2,736			
Total cash and investments	$ 659,502			

	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			

Credit Risk

The District's credit rating risk is governed by Section 53601 of the California Government Code which, among others, limits investments in money market mutual funds to those funds with the highest evaluations granted by the rating agencies, which is Aaam. The District has investments in U.S. Treasury and government agencies, bank repurchase agreements (underlying of U.S. Treasury securities and others), money market mutual funds, and in LAIF. There are no investment limits on the securities of U.S. Treasury or certain U.S. government agencies that are backed by the full faith and credit of the United States government. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's, Fitch Ratings and/or Moody's as of June 30, 2012 and 2011 (dollar amounts in thousands):

	2012	Credit Ratings			
	Fair Value	AAA	AA	A	Not Rated
Money market mutual funds	$ 309,308	$ 255,495	$ 53,813	$ -	$ -
U.S. Government agencies	30,087	-	4,403	511	25,173
Repurchase agreements	36,822	-	-	36,822	-
Total investments	376,217	$ 255,495	$ 58,216	$ 37,333	$ 25,173
Deposits with banks	279,897				
Certificates of deposit	652				
Imprest funds	2,736				
Total cash and investments	$ 659,502				

	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				

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 requires 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. At June 30, 2012 and 2011, the investments with Bayerische Landesbank Investment Repurchase Agreement amounted to $36,822,000, which exceeded 5% of the District's total investment portfolio at 9.8% and 6.5%, respectively.

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%

Fixed income securities have the following maturity restrictions: 1) maximum maturity for any single security is 40 years and 2) the weighted average portfolio maturity may not exceed 25 years.

A summary of investments by type of investments and by segmented time distribution as of June 30, 2012 and 2011 is as follows (dollar amounts in thousands):

	2012	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	$ 22,880	$ 29	$ 9,150	$ 5,149	$ 8,552
Money market mutual funds	7,969	7,969	-	-	-
Corporate obligations	20,737	316	9,278	7,798	3,345
Foreign obligations	1,381	-	786	595	-
Investments subject to interest rate risk	52,967	$ 8,314	$ 19,214	$ 13,542	$ 11,897
Domestic common stocks	52,756				
Mutual funds- equity	34,694				
Foreign stocks	785				
Total investments	$ 141,202				

	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 obligations	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				

Credit Risk

The Trust's credit risk policy is defined in its Statement of Investment Policy approved by the District's Board of Directors. The policy states that the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Trust's objectives and that the Trust's investment managers are expected to make reasonable efforts to control risk. The investment policy requires that all of the Trust's assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Trust, with minimal impact on market prices. The investment policy also demands that no single investment shall exceed five percent of the total Trust assets, at market value, except obligations of the U.S. Government, short-term money market funds, index funds and other diversified commingled accounts; and for actively managed equity accounts, where, for issues that comprise more than 4% of the account's stated benchmark, the limit shall be 125% of the weight of the common stock benchmark. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's and/or Moody's as of June 30, 2012 and 2011 (dollar amounts in thousands):

	2012	Credit Ratings				
	Fair Value	AAA	AA	A	BBB	BB
U.S. Treasury obligations	$ 22,880	$ 199	$ 22,681	$ -	$ -	$ -
Money market mutual funds	7,969	7,969	-	-	-	-
Corporate obligations	20,737	6,398	1,984	7,314	3,769	1,272
Foreign obligations	1,381	-	433	948	-	-
Investments subject to credit risk	52,967	$ 14,566	$ 25,098	$ 8,262	$ 3,769	$ 1,272
Domestic common stocks	52,756					
Mutual funds - equity	34,694					
Foreign stocks	785					
Total investments	$ 141,202					

	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 obligations	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				

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, 2012 and 2011 (dollar amounts in thousands):

	2012	2011
Interest receivable - trust for sublease obligation	$ 22,653	$ 18,888
Interest receivable - other investments	369	411
Unamortized issuance costs	9,969	10,609
Deferred charges	678	585
Deposit for power supply	10,555	11,419
Off-site ticket vendor receivable	2,662	3,435
Notes receivable	1,340	1,468
Capitol Corridor Joint Powers Authority receivable (Note 15)	2,880	6,125
Property tax receivable	1,554	291
Prepaid expenses	8,316	5,737
Imprest deposits for self-insurance liabilities	984	659
Other	3,983	4,188
Allowance for doubtful accounts	(346)	(318)
Total receivables and other assets	$ 65,597	$ 63,497
Current, unrestricted portion	$ 24,152	$ 21,414
Noncurrent, unrestricted portion	10,103	12,038
Noncurrent, restricted portion	31,342	30,045
Total receivables and other assets, as presented in the basic financial statements	$ 65,597	$ 63,497

4. Capital Assets

Changes to capital assets during the year ended June 30, 2012 were as follows (dollar amounts in thousands):

	Lives (Years)	2011	Additions and Transfers	Retirements and Transfers	2012
Capital assets, not being depreciated					
Land	N/A	$ 544,874	$ -	$ -	$ 544,874
Construction in progress	N/A	1,474,458	488,700	(129,061)	1,834,097
Total capital assets, not being depreciated		2,019,332	488,700	(129,061)	2,378,971
Capital assets, being depreciated					
Tangible Asset					
Stations, track, structures and improvements	80	3,902,394	106,263	-	4,008,657
Buildings	80	10,732	-	-	10,732
System-wide operation and control	20	587,303	901	(68)	588,136
Revenue transit vehicles	30	1,103,557	-	-	1,103,557
Service and miscellaneous equipment	3-20	214,507	6,791	(2,083)	219,215
Capitalized construction and start-up costs	30	98,305	-	-	98,305
Repairable property items	30	48,744	12,602	(12)	61,334
Intangible Asset					
Information System	20	38,788	2,504	-	41,292
Total capital assets, being depreciated		6,004,330	129,061	(2,163)	6,131,228
Less accumulated depreciation		(2,296,815)	(138,010)	1,935	(2,432,890)
Total capital assets, being depreciated, net		3,707,515	(8,949)	(228)	3,698,338
Total capital assets, net		$ 5,726,847	$ 479,751	$ (129,289)	$ 6,077,309

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	1,103,557	-	-		1,103,557
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 17).
** Includes $86,434,000 due to the termination of a capital project (Note 16).

In 1995, the District entered into an agreement with a Swedish corporation to sell 25 newly manufactured C-2 rail cars and simultaneously entered into an agreement to lease them back. The lease agreement expired on January 15, 2011.

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 $1,149,567,000 at June 30, 2012, and $992,195,000 in 2011.

5. 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, 2012 and 2011 (dollar amounts in thousands):

	2012	2011
Payable to vendors and contractors	$ 169,144	$ 125,785
Employee salaries and benefits	130,684	135,520
Accrued interest payable	24,990	27,641
Liabilities at the end of year	324,818	288,946
Less noncurrent portion	(69,447)	(68,891)
Net current portion	$ 255,371	$ 220,055

6. Long-Term Debt

Long-term debt activity for the year ended June 30, 2012 is summarized as follows (dollar amounts in thousands):

	2011	Additions/ Accretion	Payments/ Amortization	2012
1990 Sales Tax Revenue Refunding Bonds	$ 14,905	$ -	$ (14,905)	$ -
2001 Sales Tax Revenue Bonds	43,765	-	-	43,765
2005 Sales Tax Revenue Refunding Bonds	289,690	-	(8,225)	281,465
2006 Sales Tax Revenue Bonds	64,915	-	-	64,915
2006 Sales Tax Revenue Refunding Bonds	107,340	-	(210)	107,130
2010 Sales Tax Revenue Refunding Bonds	129,595	-	(415)	129,180
Construction Loans	109,500	-	-	109,500
Lease/Leaseback Obligation	44,375	-	-	44,375
2002 SFO Extension Premium Fare Bonds	53,445	-	(875)	52,570
2005 General Obligation Bonds	39,595	-	(920)	38,675
2007 General Obligation Bonds	374,270	-	(405)	373,865
	1,271,395	-	(25,955)	1,245,440
Add (less):				
Accumulated Accretion on Lease/Leaseback Obligation	12,919	3,987	(257)	16,649
Debt related items*	15,249	-	(625)	14,624
Long-term debt net of accumulated accretion and debt related items	1,299,563	$ 3,987	$ (26,837)	1,276,713
Less: current portion of long-term debt	(34,212)			(39,115)
Net long-term debt	$ 1,265,351			$ 1,237,598

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

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.

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, 2012, the 1990 Refunding Bonds were fully paid.

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. 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, 2012, 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, 2012, the 2005 Refunding Bonds consist of $192,345,000 in serial bonds due from 2012 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, 2012, 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, 2012, the 2006 Refunding Bonds consist of serial bonds amounting to $52,560,000 due from 2012 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, 2012, the 2010 Refunding Bonds consist of serial bonds amounting to $129,180,000 with interest rates ranging from 3.0% to 5.0%, with various maturity dates from 2012 to 2028.

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, 2012, 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 two-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, 2012 was $8,160,000 and $9,644,000 at June 30, 2011. 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 Investors Service or BBB+ for Standard & Poor's, the District will be required to replace the Payment Undertaker with a AAA Moody's Investors Service and Standard & Poor's rated entity. Failure to replace the Payment Undertaker will result in a default penalty. As of June 30, 2012, the Payment Undertaker's credit rating was Baa1 for Moody's Investors Service 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 details of the lease/leaseback obligation, including the accretion of interest, are as follows (dollar amounts in thousands):

	2012	2011
Long-term debt at beginning of year	$ 57,294	$ 61,355
Interest expense incurred during the year	3,987	4,054
Payment/Amortization of principal	-	(5,193)
Amortization of accumulated accretion	(257)	(2,922)
Total long-term debt at end of year	61,024	57,294
Lease amortization in one year	(384)	(257)
Net long-term debt at end of year	$ 60,640	$ 57,037

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, 2012, the 2002 Airport Premium Fare Bonds consist of $17,370,000 in serial bonds due from 2012 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, 2012, the 2005 GO Bonds consist of $19,060,000 in serial bonds due from 2012 to 2026 with interest ranging from 3.25% 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, 2012, the 2007 GO Bonds consist of $109,415,000 in serial bonds due from 2012 to 2027 with interest rates ranging from 3.75% to 5.00%, and three term bonds totaling $264,450,000 due in 2032, 2035 and 2037 with interest rates ranging from 4.75% to 5.00%. 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. In May 2010, a portion of the 1998 Bonds with an aggregate principal amount of $143,825,000 was refunded from the proceeds of the 2010 Refunding Bonds.

On all the above described 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.

In 2012, there are no outstanding principal balances of the defeased bonds. In 2011, the outstanding principal balances of the defeased bonds were $19,640,000 on the August 2005 defeasance and $102,560,000 on the November 2006 defeasance for a total of $122,200,000.

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 $25,548,000 on June 30, 2012 and $26,958,000 on June 30, 2011. Amortization expense on these deferred charges was $1,410,000 in fiscal years 2012 and 2011. 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, 2012, the District has recorded an estimated arbitrage liability amounting to $4,000 and $2,535,000 in 2011, 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, 2012 consist of 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 $983,287,000 as of June 30, 2012 ($1,031,810,000 as of June 30, 2011), which is 14% in 2012 (16% in 2011) of the total projected sales tax revenues of $7,031,535,000 as of June 30, 2012 ($6,349,000,000 as of June 30, 2011). The total projected sales tax revenues covers the period from fiscal year 2013 or fiscal year 2012 through fiscal year 2036, which is the last scheduled bond principal payment. The pledged sales tax revenues recognized in fiscal year 2012 was $195,214,000 ($180,819,000 in fiscal year 2011 as against a total debt service payment of $54,526,000 in fiscal year 2012 ($54,470,000 in fiscal year 2011).

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. Interest on the premium fare bonds is 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, 2012 is $86,155,000 ($89,646,000 on June 30, 2011) which is 15% (13% in 2011) of the total projected SFO station premium fare revenues of $566,113,000 in fiscal year 2012 ($685,648,000 in fiscal year 2011). The total projected SFO premium fare revenues covers the period from fiscal year 2013 or fiscal year 2012 through fiscal year 2036, which is the last scheduled bond principal payment. The pledged SFO station premium fare revenues recognized in fiscal year 2012 was $16,698,000 ($15,094,000 in fiscal year 2011) as against a total debt service payment of $3,492,000 in fiscal year 2012 ($3,342,000 in fiscal year 2011).

Debt Repayments

The following is a schedule of long-term debt principal and interest payments required as of June 30, 2012 (dollar amounts in thousands):

Sales Tax Revenue Bonds

Year ending June 30:	2001 Bonds Principal	2001 Bonds Interest	2005 Refunding Bonds Principal	2005 Refunding Bonds Interest	2006 Bonds Principal	2006 Bonds Interest
2013	$ 2,020	$ 2,111	$ 9,010	$ 13,242	$ -	$ 3,131
2014	2,120	2,005	12,630	12,651	-	3,131
2015	2,230	1,892	13,445	12,006	145	3,125
2016	2,340	1,771	15,130	11,298	435	3,108
2017	965	1,722	15,920	10,543	720	3,079
2018-2022	5,635	7,781	58,015	42,688	7,160	14,537
2023-2027	7,225	6,141	68,195	30,883	11,650	12,356
2028-2032	9,275	4,037	64,710	10,394	17,995	8,653
Thereafter	11,955	1,288	24,410	1,261	26,810	2,885
	$ 43,765	$ 28,748	$ 281,465	$ 144,966	$ 64,915	$ 54,005

Year ending June 30:	2006 Refunding Bonds Principal	2006 Refunding Bonds Interest	2010 Refunding Bonds Principal	2010 Refunding Bonds Interest
2013	$ 5,885	$ 4,324	$ 3,385	$ 6,120
2014	2,190	4,215	1,530	6,074
2015	2,070	4,111	1,580	6,027
2016	1,145	4,054	1,620	5,962
2017	1,390	3,985	2,925	5,845
2018-2022	13,520	18,586	44,785	24,580
2023-2027	21,490	14,535	57,625	8,041
2028-2032	26,575	9,339	15,730	403
Thereafter	32,865	2,912	-	-
	$ 107,130	$ 66,061	$ 129,180	$ 63,052

Year ending June 30:	Construction Loans Principal	Construction Loans Interest	Lease/ Leaseback Obligation Principal	Lease/ Leaseback Obligation Interest
2013	$ 16,000	$ 1,020	$ -	$ 4,244
2014	5,000	150	-	4,536
2015	-	-	-	4,834
2016	-	-	-	5,160
2017	-	-	-	5,512
2018-2022	-	-	44,375	4,459
Thereafter	88,500	-	-	-
	$ 109,500	$ 1,170	$ 44,375	$ 28,745

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
2013	$ 965	$ 2,583	$ 950	$ 1,770	$ 900	$ 18,237	$ 39,115	$ 56,783
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	1,410	2,340	1,090	1,621	3,315	17,870	27,735	52,517
2018-2022	9,170	10,411	6,155	7,320	28,840	86,008	217,655	216,370
2023-2027	13,550	7,504	7,820	5,564	55,190	75,293	242,745	160,317
2028-2032	19,280	3,311	9,875	3,444	92,410	56,330	255,850	95,910
2033-2037	4,690	20	9,740	801	147,450	25,908	257,920	35,073
Thereafter	-	-	-	-	39,675	157	128,175	157
	$ 52,570	$ 33,585	$ 38,675	$ 25,620	$ 373,865	$ 334,088	$ 1,245,440	$ 780,038

7. 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, 2012 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, 2012 and 2011, the estimated amounts of these liabilities were $37,392,000 and $29,867,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal years are as follows (dollar amounts in thousands):

	2012	2011
Liabilities at beginning of year	$ 29,867	$ 27,645
Current year claims and changes in estimates	18,905	12,206
Payments of claims	(11,380)	(9,984)
Liabilities at the end of year	37,392	29,867
Less current portion	(13,988)	(12,735)
Net noncurrent portion	$ 23,404	$ 17,132

8. 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, 2012 and 2011 are summarized as follows (dollar amounts in thousands):

	2012	2011
Total approved project costs	$ 4,540,358	$ 4,090,843
Cumulative amounts of project costs incurred and earned	$ 1,476,041	$ 1,450,320
Less: approved federal allocations received	(1,377,349)	(1,379,147)
Capital grants receivable - Federal	$ 98,692	$ 71,173

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 $25,940,000 in fiscal year 2012 and zero in fiscal year 2011 to fund the District's preventive maintenance expenses. Accordingly, the District remitted to MTC on August 17, 2012, 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 fair value, of $94,504,000 as of June 30, 2012 and $94,298,000 as of June 30, 2011. On August 17, 2012, the District made an additional remittance of $25,940,000 to MTC for the fiscal year 2012 allocation.

9. 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 2012 or 2011. The District received a TDA capital allocation of $2,438,000 in fiscal year 2011 (zero in 2012) of which $138,000 was earned during fiscal year 2012 and $119,000 in 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 $18,245,000 in fiscal year 2012 and $19,656,000 in fiscal year 2011. 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 $61,000 was earned during fiscal year 2012 and $36,000 was earned during fiscal year 2011.

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 Commission is the administrator of Measure B funds. In fiscal year 2012, the District's revenues that relate to the Measure B funds were $1,623,000 ($1,556,000 in fiscal year 2011) for the annual assistance for paratransit operating funds and $53,000 ($72,000 in fiscal year 2011) 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 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, 2012 and 2011, the balance of the reserve account is as follows (dollar amounts in thousands):

	2012	2011
Reserve account at beginning of year	$ 7,456	$ 3,281
Received/Accrued	13,477	6,225
Add interest earnings	38	16
Total	20,971	9,522
Less: amount used to cover SFO Extension operating shortfall	(1,602)	(2,066)
Reserve account at end of year	$ 19,369	$ 7,456

In accordance with the Tri-Party Financial Agreement, the District recognized contributions in fiscal year 2012 of $7,534,000 from SamTrans ($5,191,000 in fiscal year 2011) and $5,943,000 from MTC ($1,034,000 in fiscal year 2011).

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 $172,876,000 in PTMISEA grant funds to fund various BART capital projects. The grants received are in the form of cash for $167,361,000 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 2012 and 2011 (dollar amounts in thousands):

2012	**Beginning of Year**	**Received**	**Incurred**	**End of Year**
eBART Extension	$ 43	$ 28,257	$ 43	$ 28,257
Ashby Elevator	330	-	81	249
Station Modernization	24,299	6,745	9,963	21,081
Seismic Retrofit	239	-	87	152
Oakland Airport Connector	2,261	-	1,931	330
Warm Springs Extentsion	1,336	35,325	11,744	24,917
Balboa West Side Entrance	818	-	(89)	907
Access Improvements	-	487	-	487
Station Signage*	4,568	-	1,421	3,147
	$ 33,894	$ 70,814	$ 25,181	$ 79,527

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

* This grant is on a reimbursement basis.

** 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.

As of June 30, 2012 and 2011, the unused portion of PTMISEA 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):

	2012	2011
Cash available, end of year *	$ 76,615	$ 29,326
Less noncurrent portion	(21,489)	(5,597)
Net current portion	$ 55,126	$ 23,729

* includes cash held for retention payable to vendors of $235,000 in 2012, zero in 2011.

At the end of fiscal year 2012, the PTMISEA funds had earned interest income of $1,240,000 from inception, of which $118,000 was earned in fiscal year 2012 and $110,000 in fiscal year 2011.

10. 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, 2012 and 2011 was $238,781,000 and $236,701,000, respectively. The District's 2012 and 2011 payroll for all employees was $279,037,000 and $273,069,000, 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 years 2012 and 2011 were determined by an actuarial valuation of the Plans as of June 30, 2009 and 2008, respectively. The contribution rates in fiscal year 2012 were 11.986% for the Miscellaneous Plan and 38.001% for the Safety Plan. The contribution rates in fiscal year 2011 for the Miscellaneous Plan were 9.446% and 32.321% for the Safety Plan.

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

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed (%)	Net Pension Obligation
Miscellaneous Plan:	June 30, 2010	$ 20,854	100%	-
	June 30, 2011	20,522	100%	-
	June 30, 2012	26,355	100%	
Safety Plan:	June 30, 2010	6,071	100%	-
	June 30, 2011	5,894	100%	-
	June 30, 2012	6,950	100%	

Funded Status and Funding Progress of the Miscellaneous Plan
As of June 30, 2011, based on CalPERS most recent actuarial report, the Miscellaneous Plan is 92.1% funded. The actuarial accrued liability for benefits was $1,661,566,000, and the actuarial value of assets was $1,530,454,000, resulting in an unfunded actuarial accrued liability (UAAL) of $131,112,000. The covered payroll (annual payroll of active miscellaneous employees covered by the plan) was $219,833,000, and the ratio of the UAAL to the covered payroll was 59.6%

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, 2011, based on CalPERS most recent actuarial report, the Safety Plan is 73.8% funded. The actuarial accrued liability for benefits was $213,592,000, and the actuarial value of assets was $157,704,000, resulting in an unfunded actuarial accrued liability (UAAL) of $55,888,000. The covered payroll (annual payroll of active safety employees covered by the plan) was $18,864,000, and the ratio of the UAAL to the covered payroll was 296.3%.

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, 2011	June 30, 2010	June 30, 2009
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; 20 years as of the valuation date for Miscellaneous Plan; and 24 years for the Safety Plan	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
Asset valuation method	15 year smoothed market	15 year smoothed market	15 year smoothed market
Investment rate of return	7.50% (net of administrative expenses)	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service and type of employment for the Miscellaneous Plan; and 3.30% to 10.90% 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	3.55% 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
Inflation	2.75%	3.00%	3.00%
Payroll growth	3.00%	3.25%	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% 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%

The 2008 valuation assumptions were materially consistent with the 2009 valuation except for the average remaining period for the Miscellaneous Plan, which was 13 years.

11. 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, 2012 and 2011 were $4,888,000 and $5,706,000, respectively. The Money Purchase Pension Plan assets at June 30, 2012 and 2011 (excluded from the accompanying financial statements) per the plan administrator's unaudited reports were $249,371,000 and $260,388,000, respectively. At June 30, 2012, there were approximately 242 (295 in 2011) 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.

12. Other Postemployment Benefits

In addition to the retirement benefits described in Notes 10 and 11, 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 2006 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 2012, as a percent of covered payroll for the year, are 11.52% (11.77% in fiscal year 2011) for retiree medical benefits and 0.72% (0.80% in fiscal year 2011) for additional OPEB, which amounted to $28,002,000 and $1,813,000, respectively ($28,135,000 and $1,894,000 in fiscal year 2011). In fiscal year 2012, the District contributed cash to the Trust amounting to $10,100,000 for the retiree medical benefits and zero for the additional OPEB to partially fund the OPEB cost for the year. 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 addition, the District made payments in fiscal year 2012 on a pay-as-you-go basis, net of retirees' and surviving spouses' share, medical insurance premiums totaling $14,516,000 for 1,812 retirees and surviving spouses ($13,272,000 for 1,641 retirees and surviving spouses in fiscal year 2011) and life insurance premiums amounting to $70,000 ($81,000 in fiscal year 2011). The District does not charge any administration cost to the Trust. Currently, the retiree pays $89.55 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 2012 and 2011 (dollar amounts in thousands):

Retiree Medical Benefits

	2012	2011
Annual Required Contribution (ARC)	$ 28,002	$ 28,135
Interest on net OPEB obligation	2,557	2,316
Adjustments to ARC	(2,557)	(2,316)
Annual OPEB Cost	28,002	28,135
Contributions made	(24,616)	(24,563)
Increase in Net OPEB obligation	3,386	3,572
Net OPEB obligation, beginning of year	37,881	34,309
Net OPEB obligation, end of year	$ 41,267	$ 37,881

Additional OPEB

	2012	2011
Annual Required Contribution (ARC)	$ 1,813	$ 1,894
Interest on net OPEB obligation	356	279
Adjustments to ARC	(356)	(279)
Annual OPEB Cost	1,813	1,894
Contributions made	(70)	(81)
Increase in Net OPEB obligation	1,743	1,813
Net OPEB obligation, beginning of year	8,377	6,564
Net OPEB obligation, end of year	$ 10,120	$ 8,377

The total net OPEB obligations of $51,387,000 in fiscal year 2012 and $46,258,000 in fiscal year 2011 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	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Retiree Medical Benefits	June 30, 2010	$ 35,276	65%	$ 34,309
	June 30, 2011	28,135	87%	37,881
	June 30, 2012	28,002	88%	41,267
Additional OPEB	June 30, 2010	2,258	3%	6,564
	June 30, 2011	1,894	4%	8,377
	June 30, 2012	1,813	4%	10,120

At June 30, 2012, assets held in the Trust included investments in money market mutual funds, U.S. Treasury obligations, corporate obligations, foreign obligations, foreign stocks, money market and equity mutual funds and domestic common stocks with an aggregate fair value of $141,202,000 ($133,740,000 in 2011). 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, 2011, based on Keenan and Associates (Keenan)'s most recent actuarial report, the Retiree Medical Plan is 31.9% funded. The actuarial accrued liability for benefits was $376,063,000, and the actuarial value of assets was $120,103,000, resulting in an unfunded actuarial accrued liability (UAAL) of $255,960,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) was $240,465,000, and the ratio of the UAAL to the covered payroll was 106.44%.

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, 2011, based on Keenan's most recent actuarial report, the Additional OPEB Plan is zero percent funded. The actuarial accrued liability for benefits was $25,919,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $25,919,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) was $240,465,000, and the ratio of the UAAL to the covered payroll was 10.78%.

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 valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan in effect and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Assumptions and Methods

The latest OPEB actuarial valuation was performed by Keenan in June 2012 using District data as of June 30, 2011. A summary of principal assumptions and methods used by Keenan to determine the District's annual required contributions to the OPEB plans is shown below:

Valuation Date	June 30, 2011	June 30, 2010	June 30, 2009
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	22 years	24 years	25 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	2.75%	3.00%	3.00%
Payroll growth rate	0% through 2012-2013; then 3.00% per year	0% through 2012-2013; then 3.25% per year	3.25%
Health care cost trend rate for the first year	7.00%	7.50%	8.00%
Ultimate trend rate	3.75%	4.00%	4.00%
Year that rate reaches the ultimate rate	2020	2019	2019

13. Board of Directors' Expenses

Total Directors' expenses, consisting of travel and other business related expenses for the years ended June 30, 2012 and 2011 amounted to $26,000 and $36,000, respectively.

14. 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, was extended to August 1, 2010 and was not renewed after its expiration on August 1, 2010. The Authority was formed for the purpose of providing financing and contracting for public transit improvements, including the refinancing of prior indebtedness and acquiring, selling and financing public capital improvements, working capital, liability and other insurance needs, and for the specific purpose of assisting in financing the District's East-Bay and West-Bay extensions. The Authority's financial information, before it was terminated, was presented as a blended component unit of the District's financial statements because the Authority provided services almost exclusively to the District.

On the termination of the Agreement effective August 2, 2010, the Authority had 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.

15. 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 $4,112,000 for marketing and administrative services during 2012 and $4,285,000 during 2011. 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 $2,880,000 and $6,125,000 as of June 30, 2012 and 2011, 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 9). 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"). In 2012, the Agency was dissolved by California Assembly Bill ABx1 26. 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 – two from the County and the District.

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

The AATC project had three phases which were: Phase 1, the prototype phase, which demonstrated the feasibility of the technical concepts, Phase 2, the development phase, which implemented 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 implemented 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 were not completed. 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 included 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 amounted to $93,120,000. 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. 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.

In fiscal year 2011, the District had 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 consisted 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 was classified as a special item in the fiscal year 2011 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

17. Commitments and Contingencies

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

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 from the Northern California Power Agency (NCPA). Power purchase contracts with the NCPA are in place through December 31, 2016, with a total remaining contract value of $65,954,000 as of June 30, 2012.

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, 2012 are as follows (dollar amounts in thousands):

Year ending June 30:	Operating Leases
2013	$ 12,011
2014	11,962
2015	11,949
2016	12,082
2017	12,033
2018-2022	54,134
2023-2027	12,500
2028-2032	12,500
2033-2037	12,500
2038-2042	12,500
2043-2047	12,500
2048-2052	12,500
2053-2057	2,292
Total minimum rental payments	$ 191,463

Rent expenses under all operating leases were $11,314,000 and $11,121,000 for the years ended June 30, 2012 and 2011, 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 became effective December 9, 2003 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 earned 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 $4,642,000, 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 for fiscal years 2012 and 2011 amounted to $158,000 each year. The remaining balance in the Replacement Parking Rent Credit was $3,608,000 as of June 30, 2012 ($3,766,000 as of June 30, 2011).

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 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 terminated on January 15, 2011.

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, 2012 and 2011, the remaining principal balance is $44,375,000.

18. Subsequent Event

On September 12, 2012, the Governor of California signed into law the “Public Employees’ Pension Reform Act of 2013.” This legislation applies to all public employers and pension plans on or after January 1, 2013, with the exception of the University of California as well as charter cities and charter counties that are not a member of a retirement system governed by State code. Key provisions of this legislation include changes in retirement benefits, member contributions, increasing the retirement age for both public safety and miscellaneous employees, eliminating the ability of any public employee to purchase nonqualified services or “airtime,” establishing a cap on the annual salary that counts toward final compensation and pension benefits, and prohibiting a public employer from offering a replacement benefit plan for new members. All aspects of the legislation apply to new employees hired on or after January 1, 2013. A few provisions, such as cost sharing, the elimination of airtime and pension holidays, apply to current members in the system. This legislation does not have any impact on the District’s existing unfunded liability and contribution rates for the fiscal year 2011-12. However, it will impact future contribution rates as the District hires new employees, resulting in lower contribution requirements over time. The District is evaluating the impact of the legislation and communication with CalPERS will require significant effort.

On October 3, 2012, the District issued the Sales Tax Revenue Bonds, 2012 Series A (the "2012 Series A Bonds") with a principal amount of $130,475,000 and the Sales Tax Revenue Bonds, 2012 Series B (Federally Taxable) (the "2012 Series B Bonds") with a principal amount of $111,085,000. The 2012 Series A Bonds and the 2012 Series B Bonds (together, the "2012 Bonds") are special obligations of the District, payable from and secured by a pledge of sales tax revenues. The 2012 Series A Bonds were issued to, along with other District funds, provide sufficient funds to (i) refund $51,605,000 principal amount of the 2002 Airport Premium Fare Bonds, (ii) refund $41,745,000 principal amount of the 2001 Bonds, (iii) refund $63,615,000 principal amount of the 2006 Bonds, and (iv) fund the costs of bond issuance. The 2012 Series B Bonds were issued to provide financing for the Oakland International Airport Connector Project and to fund the costs of bond issuance.

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 (%)
6/30/09	$ 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
6/30/11	1,661,566	1,530,454	131,112	92.1	219,833	59.6

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 (%)
6/30/09	$ 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
6/30/11	213,592	157,704	55,888	73.8	18,864	296.3

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 (%)
6/30/09	$ 335,118	$ 68,087	$ 267,031	20.3	$ 242,071	110.30
6/30/10	347,058	88,456	258,602	25.5	236,436	109.40
6/30/11	376,063	120,103	255,960	31.9	240,465	106.44

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 (%)
6/30/09	$ 27,297	$ -	$ 27,297	-	$ 242,071	11.30
6/30/10	25,305	-	25,305	-	236,436	10.70
6/30/11	25,919	-	25,919	-	240,465	10.78