

**San Francisco
Bay Area Rapid Transit District**



2007 Annual Report

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
For the Years Ended June 30, 2007 and 2006

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Message from the General Manager – FY 2007 Annual Report

BART's emphasis on providing safe, reliable and affordable service helped to make Fiscal Year (FY) 2007 a banner year. We celebrated our 50th birthday, demonstrated our value to the region, set impressive ridership records and prepared to celebrate our 35th year of service.



In FY 2007 BART confirmed that it is truly the backbone of the Bay Area's transportation system when on Sunday, April 29, 2007 a big rig burst into flames and a portion of the MacArthur Maze collapsed. BART workers quickly sprang into action and kept the Bay Area moving by making sure we could accommodate a large increase in riders. Two days after the incident, BART set a single day ridership record of 375,200 riders. Then, just six weeks later, on June 13, 2007, we set a new single day ridership record of 381,200 riders when fans flocked onto BART to get to the Police concert at the Oracle Arena in Oakland.

As a result of this surge in ridership, we had sufficient revenue remaining in the Fiscal Year 2007 (FY07) budget to enable us in FY08 to hire 24 new train and station cleaners and achieve a 35-year dream of finally offering our off peak customers the same 15 min. headways that they get throughout the day, which amounts to a 33% increase in service.

In looking ahead, our challenge is to renew the commitment that taxpayers, federal, state and local leaders made 50 years ago by re-investing in the BART system. This includes replacing and expanding our 669 rail car fleet, renovating our stations and modernizing our systems. It is a very tall order, but imperative if we are to continue to provide high quality and reliable service to BART passengers well into the future.

Dorothy W. Dugger
BART Interim General Manager

BART Celebrates Significant Milestone

June 4th marked BART's 50th birthday as a District. It was on June 4, 1957 when then Governor Goodwin Knight and the state legislature took a pre-emptive strike against the impending gridlock following the post-World War II population boom in the Bay Area and passed legislation that created the BART District.

New Ridership Records Set

On June 13, 2007 BART recorded an all-time ridership high of 381,200. Soon after, BART carried its 100 millionth passenger on Monday, June 25, 2007, establishing yet another benchmark in a banner year of ridership. On that day, one of BART's 342,300 riders pushed the transit agency into nine digit territory, putting the tally from July 1, 2006 to June 25, 2007 at 100,128,800. It was the first time BART had carried more than 100 million passengers in a fiscal year.

Earthquake Safety

The U.S. Geological Survey predicts there's a 62% chance of at least one 6.7 magnitude or greater earthquake striking the Bay Area between now and 2032. Retrofitting BART's infrastructure to withstand major tremblers is a 10-year, \$1.3 billion project. BART's Earthquake Safety Program involves retrofitting the Transbay Tube (Tube), stations and more than 1,900 columns that hold up elevated tracks. The Tube earthquake retrofit plans, aimed to prevent soil surrounding the Tube from liquefying, were unveiled in October 2006. The adopted plans came as a great relief to the Ferry Building Farmers Market vendors, as well as their customers, who feared the construction would interrupt the weekly event. The end result demonstrated BART's spirit to seek solutions with the communities that may be affected by the Earthquake Safety retrofit construction.

System Security

The BART security program is essential to keep the Bay Area moving. Education programs to heighten employee and customer awareness of potential suspicious activities within the BART system, emergency response drills, and installation of additional monitoring systems are examples of such programs. BART's overall security program needs are expected to exceed \$250 million in capital costs, with operational costs estimated at \$8.5 million annually. Despite the increasing need for security funds for the nation transit systems, in FY 2007, the total amount allocated nationwide by Homeland Security was \$175 million and the SF Bay Area share was \$13.8 million (8%).

In November 2006, the voters of California came to the rescue by approving Proposition 1B, which provided \$20 billion in bonds for a variety of transportation and transit-related programs throughout the state. These bonds include \$1 billion for mass transit safety and security, which once allocated should help meet some of the State's and BART's security needs.

Financial Responsibility

In FY 2007 BART's fiscal picture was bright. After several previous years of severe belt-tightening, BART achieved 60.4% farebox recovery ratio and the BART Board voted to focus on improving customer service. In June 2007, the BART Board of Directors approved a \$627.4

million FY 2008 Operating Budget. The budget made substantial improvements to the overall customer experience by:

- Doubling the number of trains serving most stations on the SFO/Millbrae line
- Making train cars cleaner by adding more car cleaning positions
- Making stations and other facilities brighter with improved lighting
- Cutting time between trains at night Monday-Saturday and all the time on Sundays/holidays
- Raising the bar on BART's on-time performance standard
- Enhancing BART's award-winning website

System Renovation

BART is carrying record numbers of people on an ever aging system. In fact, 439 of BART's 669 rail cars are from the original fleet. Many key components and systems that keep trains on-time are nearing the end of their life spans. In order to assure rider safety and reliability, BART has begun to move forward with the implementation of an ambitious program to renovate and replace many of the agency's systems and equipment. The BART Board of Directors has approved a plan to use its share of Proposition 1B revenues (passed in 2006 by California voters) to respond to some of the agency's renovation needs, beginning with BART's station modernization program. Additionally, BART's renovation needs total \$8 billion over 25 years and include:

- Phase replacement of the entire BART rail car fleet
- Renovate and/or replace train control and power distribution systems
- Upgrade and/or replace electronic systems
- Renovate railway propulsion power and ventilation systems
- Renovate and/or replace communications systems
- Improve stations & trackways

System Expansion

Several BART extension projects, which will expand the 104-mile system, moved forward during FY 2007:

- **WARM SPRINGS EXTENSION:** The BART Warm Springs Extension is an approximately 5.4 mile extension of BART's existing Fremont line to a terminal station in Warm Springs. In October 2006, the Federal Transit Administration signed off on the project, paving the way for BART to acquire the right of way and to receive federal funding for the extension. This extension is the first step in the BART Silicon Valley Rapid Transit Project.
- **NEW STATION IN WEST DUBLIN/PLEASANTON:** On September 29, 2006, BART and its partners broke ground on a new station in West Dublin/Pleasanton. The new station will be located between Castro Valley and Dublin/Pleasanton stations. Currently, 10 miles separate those stations. The new station will be the first BART station built with housing, shopping and retail space already incorporated into its design. BART projects the opening date for the infill station in late FY09.

- **OAKLAND AIRPORT CONNECTOR:** On June 22, 2007 the Federal Transit Administration gave the Oakland Airport Connector (OAC) a big boost when it signed an agreement to provide up to \$25 million toward the project. The OAC is a people mover that will link the Coliseum BART Station with the Oakland International Airport. Currently passengers make the connection via an AirBART bus. The project is getting its funding through a public-private partnership (P3). 2007 was the first year the federal government decided to contribute money toward P3 projects and selected the OAC project as part of its pilot P3 program. The anticipated opening year of service for OAC is in 2011.

Capitol Corridor

BART entered the third year of its five-year contract as the managing agency for the Capitol Corridor intercity railway, the rail system that services the route between Auburn and San Jose. The Capital Corridor Joint Powers Authority announced record-breaking ridership and revenue growth for 2007. Ridership increased 14%, continuing the nine-year trend of ridership growth every year and farebox revenue improved to 48% demonstrating the increasing popularity of using the Capitol Corridor train service.

Setting the Trend

BART continued its tradition as a trendsetter among transit agencies, not only by initiating cutting edge technology for its customers, but by maintaining its diverse leadership.

Technological advances introduced in FY2007 included:

- Offering the mobile voting program, which gave voters in Alameda County the opportunity to cast their 2006 gubernatorial vote on mobile voting machines. It was the only mobile voting program in the Bay Area
- Setting the groundwork for Near Field Communications technology that could allow customers to use their mobile phones to pay for BART rides, provided the customer has a NFC enabled phone should they become publicly available in the U.S.
- Launching BARTtv News in April 2007. Since BARTtv News' unveiling, BART has produced 174 stories, from daily updates during the MacArthur Maze collapse to tips on how to get to "BARTable" destinations

In FY 2007 women continued to be at BART's helm:

- In December 2006 President Lynette Sweet and Vice-President Gail Murray were unanimously elected to lead BART's Board. In her acceptance speech, President Sweet pledged to lead BART into an era of even better representation for women and minorities in the agency's upper managerial ranks
- After working as BART's longest serving General Manager, Thomas E. Margro, resigned after 11 years of service. As FY 2007 came to a close, the BART Board selected me to serve as Interim General Manager while the Board conducted a nationwide search to hire a permanent GM

Looking Forward

The record-breaking ridership of FY 2007 demonstrated just how significant BART is to the region's mobility. BART keeps the Bay Area moving. That's important for both the economy and the environment. Moving forward, BART plans to surpass the records set this fiscal year and raise the bar for reliability by increasing its passenger on-time performance goal from 95% to 96%. With the continued dedication of BART employees and the support of loyal BART riders, in FY 2008 BART will continue to be at the forefront of the transportation industry.



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

INDEPENDENT AUDITOR'S 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, 2007 and 2006, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the District, as of June 30, 2007 and 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the District adopted the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2007 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the District's internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information.


Certified Public Accountants
Walnut Creek, California

November 28, 2007

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2007 and 2006

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, 2007 and 2006. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

The Financial Statements

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

Overview of the Enterprise Fund Financial Statements

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

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

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

Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. This net 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.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2007 and 2006

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 2007, 2006 and 2005 is as follows (dollar amounts in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 307,370	\$ 275,124	\$ 248,644
Operating expenses, net	<u>(593,652)</u>	<u>(573,187)</u>	<u>(548,197)</u>
Operating loss	(286,282)	(298,063)	(299,553)
Nonoperating revenues, net	292,025	232,900	189,059
Capital contributions	75,283	62,487	77,947
Special item	<u>(22,680)</u>	<u>-</u>	<u>(36,222)</u>
Change in net assets	58,346	(2,676)	(68,769)
Net assets, beginning of year	<u>4,326,288</u>	<u>4,328,964</u>	<u>4,397,733</u>
Net assets, end of year	<u>\$ 4,384,634</u>	<u>\$ 4,326,288</u>	<u>\$ 4,328,964</u>

Operating Revenues

The increase of \$32,246,000 in operating revenues in fiscal year 2007 is mainly credited to (1) an increase of \$25,841,000 from passenger fares and (2) a \$6,043,000 increase in parking (\$3,729,000), advertising (\$1,275,000) and fiber optics revenues (\$1,039,000). The increase in passenger fares is due to a 5% increase in weekday passenger trips from 322,965 in fiscal year 2006 to 339,359 in fiscal year 2007 and the whole year effect in fiscal year 2007 (as compared to only six months in fiscal year 2006) of the 3.7% increase in passenger fare effective January 1, 2006.

The increase of \$26,480,000 in operating revenues in fiscal year 2006 is mainly credited to (1) an increase of \$22,587,000 from passenger fares and (2) a \$3,893,000 increase in concession and other revenues. The increase in passenger fares is due to a 4% increase in weekday passenger trips from 310,717 in fiscal year 2005 to 322,965 in fiscal year 2006 and the 3.7% increase in passenger fare effective January 1, 2006. The increase in concession and other revenues is due to increases in advertising revenue of \$1,528,000, in reimbursements of support costs from telecommunication and other projects of \$1,486,000, and in traffic fine collections and concession revenues from public phones and newsstands of \$963,000.

Operating Expenses

The net operating expenses for fiscal year 2007 increased by \$20,465,000, which is due to (1) an increase of \$13,788,000 in expenditures for traction and other electrical supply; (2) an increase of \$7,121,000 in salaries and benefits mainly due to the contractual 2% pay increase effective July 1, 2006; (3) an increase of \$5,814,000 in repairs and maintenance expenditures; (4) an increase of \$5,410,000 in fees paid for professional and technical services; (5) an increase of \$2,016,000 in health insurance premium; (6) an increase of \$1,988,000 in employer's contribution payments to CalPERS; (7) an increase of \$1,968,000 in property and liability insurance premium payments; and offset by (8) a decrease of \$18,760,000 in depreciation expense.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2007 and 2006

The net operating expenses for fiscal year 2006 increased by \$24,990,000, which is primarily due to an increase in the employer's contribution to CalPERS of \$12,739,000, depreciation expense of \$16,609,000, health insurance premium payments of \$4,889,000, and offset by decrease in other employee and retiree compensation of \$6,188,000 and workers compensation expense accrual (\$3,536,000). The annual required contribution rates to CalPERS increased in 2006 – 8.717% from 2.615% in 2005 for Miscellaneous Employees, and 32.324% from 28.910% in 2005 for Safety Employees.

Nonoperating Revenues

The net nonoperating revenues in fiscal year 2007 showed an increase of \$59,125,000 as compared to fiscal year 2006. The increase is due to (1) a \$40,000,000 increase in financial assistance mainly coming from additional State Transit Assistance (“STA”) grants for operations (\$18,000,000), receipts of federal grants to fund the BART Car Replacement Funding Exchange program (\$22,680,000) (Note 10) and for preventive maintenance expenses (\$4,176,000) and offset by a reduction in SamTrans financial assistance (\$5,505,000); (2) an increase of \$16,157,000 in investment income attributable to receipt of \$1,450,000 from the termination of the 2001 Bonds Reserve Fund Forward Purchase and Sale Agreement, and to a higher average investment earnings rate of 5.12% in 2007 compared to 4.04% in 2006; (3) an increase of \$7,125,000 in sales tax revenues; (4) an increase of \$7,428,000 in revenues from property tax designated for operations and for debt service on the 2005 General Obligation Bonds; and offset by (5) a decrease of \$11,042,000 attributed to the gain from the sale of the real properties in 2006, and no sale of real properties in 2007.

The net nonoperating revenues increased by \$43,841,000 in fiscal year 2006. The increase is largely due to an increase in sales tax revenues of \$13,288,000 directly attributable to the strong economy in the District counties, receipt of property tax revenues of \$17,652,000 allocated for debt service payments of the 2005 General Obligation Bonds, the net gain received from the sale of properties of \$11,042,000, and a decrease in interest expense of \$5,110,000 primarily from substantial reduction in the outstanding balance of the FTA Capital Grant Bonds, and offset by a net decrease in investment income of \$4,720,000. The net decrease in investment income is the result of a decrease in the fair value amounting to \$15,189,000 of investments and deposits related to the 2002 lease/leaseback of certain rail traffic control equipment offset by an increase of \$10,469,000 in the interest income from all investments of the general fund, debt service funds and construction funds as a result of better interest rates in fiscal year 2006 and higher investment balances during the year.

Capital Contributions

The revenues from capital contributions relate to grants and other financial assistance received by the District from the federal, state and local agencies to fund capital projects. The District receives reimbursement-type grants on which the District has to first incur eligible costs under the provider's program before qualifying for the grant resources. Revenues from capital contributions are recognized at the time when the eligible project costs are incurred. The capital contributions in fiscal year 2007 showed an increase of \$12,796,000 and a decrease of \$15,460,000 in fiscal year 2006.

Special Item

The special item of \$22,680,000 in 2007 refers to payments made by the District to the Metropolitan Transportation Commission (“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. MTC is the exclusive administrator of the restricted account.

The special item of \$36,222,000 in 2005 relates to the District's cash contributions to the Retiree Health Benefit Trust.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2007 and 2006

Statements of Net Assets

A comparison of the District's *Statements of Net Assets* as of June 30, 2007, 2006 and 2005 is as follows (dollar amounts in thousands):

	<u>2007</u>	<u>2006</u>
Current assets	\$ 642,462	\$ 644,290
Noncurrent assets - capital assets, net	4,967,443	4,944,189
Noncurrent assets - other	<u>193,502</u>	<u>353,529</u>
Total assets	5,803,407	5,942,008
Current liabilities	248,619	358,336
Noncurrent liabilities	<u>1,170,154</u>	<u>1,257,384</u>
Total liabilities	1,418,773	1,615,720
Net assets		
Invested in capital assets, net of related debt	4,084,589	4,008,057
Restricted net assets	71,077	137,342
Unrestricted net assets	<u>228,968</u>	<u>180,889</u>
Total net assets	<u>\$ 4,384,634</u>	<u>\$ 4,326,288</u>

In fiscal year 2007, noncurrent assets – other decreased by \$160,027,000 mainly due to (1) the decrease of \$129,190,000 in investments restricted for debt service; and (2) the decrease of \$28,826,000 in the deposits reserved for the District's sublease obligation on the 2002 lease/leaseback transaction involving rail traffic control equipment. The debt service funds were used to pay the final principal and interest payments on the TFA Bridge Toll Notes, the FTA Capital Grant Bonds and the 2004 SFO Extension Refunding Bonds, all of which long term debts were issued to finance the construction of the SFO Extension project.

In fiscal year 2006, noncurrent assets – other decreased by \$132,865,000, which is mainly due to the decrease in capital grants receivable for the SFO Extension due to the receipt of the federal allocations of \$114,263,000 in fiscal year 2006, the application of a portion (\$42,900,000) of the deposit related to the 2002 lease/leaseback of certain rail traffic control equipment as payment of the sublease obligation, and offset by an increase in deferred changes of \$24,359,000 primarily from deferred interest expense recognized in fiscal year 2006 related to the full defeasance of 1995 and 1999 Sales Tax Revenue Bonds and partial defeasance of 1998 and 2001 Sales Tax Revenue Bonds.

The current liabilities as of June 30, 2007 decreased by \$109,717,000 which is mainly due to (1) the final payments of the principal amounts due in August 2006 and February 2007 on the TFA Bridge Toll Notes totaling to \$21,785,000, and in June 2007 on the FTA Capital Grant Bonds amounting to \$46,330,000; (2) a decrease of \$26,550,000 in the principal and interest payable on the 2002 lease/leaseback obligation related to the rail traffic control equipment; and (3) a decrease of \$7,826,000 in liabilities to vendors related to construction projects.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

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The current liabilities as of June 30, 2006 decreased by \$12,079,000 which is mainly due to the decrease in the current portion of long-term debt because of the advance refunding of certain sales tax revenue bonds from the proceeds of the 2005 Bonds.

Capital Assets

The District's capital assets, before accumulated depreciation, increased by \$138,611,000 in 2007 and by \$78,869,000 in 2006. The major additions during the years included capital expenditures for the acquisition and/or major improvements on the following assets:

- core system and extensions amounting to \$118,587,000 in 2007 and \$83,817,000 in 2006;
- train control equipment totaling \$18,382,000 in 2007 and \$20,822,000 in 2006;
- revenue transit vehicles in the amount of \$4,477,000 in 2007 and \$4,498,000 in 2006;
- automatic fare collection equipment amounting to \$8,221,000 in 2007 and \$6,615,000 in 2006; and,
- Business Advancement Plan (BAP) which is a project to replace the information technology systems supporting the District's administrative business totaling \$3,250,000 in 2007 and \$2,788,000 in 2006.

Details of the capital assets, net of accumulated depreciation, as of June 30, 2007, 2006 and 2005 are as follows (dollar amounts in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 530,509	\$ 524,392	\$ 513,849
Stations, track, structures and improvements	2,907,322	2,929,155	2,738,045
Buildings	5,652	5,738	18,072
Revenue transit vehicles	493,401	539,634	586,042
Other	313,378	264,325	280,052
Construction in progress	717,181	680,945	861,809
Total capital assets	<u>\$ 4,967,443</u>	<u>\$ 4,944,189</u>	<u>\$ 4,997,869</u>

The District has entered into contracts for the construction of various facilities and equipment totaling approximately \$587,633,000 at June 30, 2007 and \$553,859,000 at June 30, 2006.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2007 and 2006

Long-Term Debt

The outstanding balance of long-term debt showed decreases of \$176,169,000 and \$88,589,000 at the end of fiscal years 2007 and 2006, respectively. Below is a summary of long-term debt as of June 30, 2007, 2006 and 2005 (including current portion but excluding unamortized balance of debt issue costs and bond premium/discounts) (dollar amounts in thousands):

Bonds payable from and collateralized by a pledge of sales tax revenues	\$ 748,095	\$ 763,875	\$ 714,820
Bonds payable from and collateralized by the Federal Full Funding Grant Agreement for the SFO Extension	-	102,030	197,250
Notes payable from bridge toll revenues	-	21,785	30,280
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	47,000	40,895	35,400
Lease/leaseback obligation, including accumulated accretion, for rail traffic control equipment	128,695	158,009	197,433
Bonds payable from the premium fare imposed on the passengers who board on or depart from the San Francisco International Airport Station	56,165	56,715	56,715
General obligation bonds	87,185	100,000	100,000
Total long-term debt	<u>\$ 1,155,640</u>	<u>\$ 1,331,809</u>	<u>\$ 1,420,398</u>

In fiscal year 2007, bonds issued related to the construction of the SFO Extension which are payable from the Federal Full Funding Grant Agreement and from the Bridge Toll revenues were fully paid. The payments include the redemption of a portion of the SFO Extension Refunding Bonds issued in 2004 with principal amount of \$55,700,000 scheduled to mature on June 15, 2008 and 2009.

In fiscal year 2006 the principal payments of the bonds payable from the Federal Full Funding Grant Agreement for the SFO Extension include prepayments of bonds due in fiscal year 2008 amounting to \$5,000,000 and \$15,710,000 of the bonds due in fiscal year 2009.

Addition to Long-Term Debt in Fiscal Year 2007

In fiscal year 2007, the District issued sales tax revenue bonds with a total principal amount of \$108,110,000 (the "2006 Refunding Bonds") to advance refund a portion of the sales tax revenues bonds previously issued by the District in July 2001 in the aggregate principal amount of \$102,560,000. Payment of principal and interest of the 2006 Refunding Bonds is insured by a municipal bond issuance policy issued by Financial Security Assurance Inc. The insured bonds were rated AAA by Standard & Poor's and Fitch Ratings.

Additions to Long-Term Debt in Fiscal Year 2006

There were two new bonds issues in fiscal year 2006, which are the Sales Tax Revenue Refunding Bonds, Series 2005 A issued in August 2005 with a principal amount of \$352,095,000 (the "2005 Bonds") and the Sales Tax Revenue Bonds, Series 2006 issued in June 2006 with an aggregate principal amount of \$64,915,000 (the "2006 Bonds"). Both issues are payable from and secured by the District's sales tax revenues.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2007 and 2006

The proceeds from the 2005 Bonds were mostly used to advance refund certain bonds then outstanding to achieve cash flow savings. Payments of principal of and interest on the 2005 Bonds maturing on or after July 1, 2008 are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation. The insured 2005 Bonds were rated AAA, Aaa and AAA by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

The proceeds from the 2006 Bonds are to be used for the construction of a new West Dublin/Pleasanton Station and other related improvements. Payments of principal and interest on the 2006 Bonds when due are insured by a municipal bond insurance policy issued by Financial Security Assurance. The insured 2006 Bonds were rated AAA, Aaa, and AAA by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

Statements of Cash Flows/Cash, Cash Equivalents and Investments

A comparative presentation of the major sources and uses of cash for 2007, 2006 and 2005 is as follows (dollar amounts in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net cash used in operating activities	\$ (158,273)	\$ (150,474)	\$ (165,472)
Net cash provided by noncapital financing activities	230,080	179,431	113,868
Net cash provided by (used in) capital and related financing activities	(229,420)	72,775	64,898
Net cash provided by (used in) investing activities	<u>383,004</u>	<u>(125,409)</u>	<u>107,877</u>
Net change in cash and cash equivalents	225,391	(23,677)	121,171
Cash and cash equivalents, beginning of year	<u>328,245</u>	<u>351,922</u>	<u>230,751</u>
Cash and cash equivalents, end of year	553,636	328,245	351,922
Investments, end of year	<u>47,628</u>	<u>404,950</u>	<u>266,664</u>
Cash, cash equivalents and investments, end of year	<u>\$ 601,264</u>	<u>\$ 733,195</u>	<u>\$ 618,586</u>

The total cash, cash equivalents and investments held by the District and trustee banks at June 30, 2007 amounted to \$601,264,000, a decrease of \$131,931,000 compared to \$733,195,000 reported as of June 30, 2006. The decrease is due to the use of the debt service reserve funds of the TFA Bridge Toll notes (\$16,573,000) and of the FTA Capital Grant Bonds (\$112,616,000) to pay the final principal and interest installments of the long term debts.

The total cash, cash equivalents and investments held by the District and trustee banks at June 30, 2006 amounted to \$733,195,000, an increase of \$114,609,000 compared to \$618,586,000 reported as of June 30, 2005. The increase is primarily due to (1) an increase in cash receipts from passenger fares of \$19,147,000; (2) an increase in cash received from sales tax revenues of \$13,288,000; (3) a receipt of property tax revenues totaling \$17,652,000 for debt service payments of the 2005 General Obligation Bonds; (4) a net cash inflow of \$55,281,000 from the proceeds of the 2006 Bonds issued in late June 2006; and (5) net cash generated of \$22,777,000 from the sale of real properties.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2007 and 2006

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, 2007 and 2006
(dollar amounts in thousands)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Unrestricted assets		
Cash and cash equivalents	\$ 329,635	\$ 129,349
Investments	4,663	167,708
Capital grants receivable	31,781	32,730
Receivables and other assets	18,448	16,722
Current portion of capital lease receivable	3,155	3,154
Materials and supplies	29,542	29,804
Total unrestricted current assets	<u>417,224</u>	<u>379,467</u>
Restricted assets		
Cash and cash equivalents	224,001	198,896
Investments	1,237	65,927
Total restricted current assets	<u>225,238</u>	<u>264,823</u>
Total current assets	<u>642,462</u>	<u>644,290</u>
Noncurrent Assets		
Capital assets		
Nondepreciable	1,247,690	1,205,337
Depreciable, net of accumulated depreciation	3,719,753	3,738,852
Unrestricted assets		
Long-term portion of capital lease receivable	7,886	11,041
Receivables and other assets	31,792	25,478
Restricted assets		
Investments	41,728	171,315
Capital grants receivable	—	2,425
Receivables and other assets	37,575	39,923
Deposits for sublease obligation	74,521	103,347
Total noncurrent assets	<u>5,160,945</u>	<u>5,297,718</u>
TOTAL ASSETS	<u>\$ 5,803,407</u>	<u>\$ 5,942,008</u>

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Enterprise Fund
Statements of Net Assets (continued)
June 30, 2007 and 2006
(dollar amounts in thousands)

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities	\$ 167,719	\$ 183,369
Current portion of long-term debt, net	57,617	152,172
Self-insurance liabilities	9,152	9,174
Deferred revenue	10,976	10,467
Current portion of capital lease liability	3,155	3,154
Total current liabilities	<u>248,619</u>	<u>358,336</u>
Noncurrent liabilities		
Long-term debt, net of current portion	1,104,774	1,187,257
Self-insurance liabilities	19,550	19,180
Deferred revenue	35,007	37,789
Capital lease liability, net of current portion	7,886	11,041
Other liabilities	2,937	2,117
Total noncurrent liabilities	<u>1,170,154</u>	<u>1,257,384</u>
TOTAL LIABILITIES	<u>1,418,773</u>	<u>1,615,720</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,084,589	4,008,057
Restricted net assets		
For debt service and other liabilities	71,077	137,342
Unrestricted net assets	228,968	180,889
TOTAL NET ASSETS	<u>\$ 4,384,634</u>	<u>\$ 4,326,288</u>

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, 2007 and 2006
 (dollar amounts in thousands)

	2007	2006
OPERATING REVENUES		
Fares	\$ 282,080	\$ 256,238
Other	25,290	18,886
Total operating revenues	<u>307,370</u>	<u>275,124</u>
OPERATING EXPENSES		
Transportation	142,989	125,022
Maintenance	178,839	168,226
Police services	41,442	39,109
Construction and engineering	18,160	17,777
General and administrative	117,962	111,532
Depreciation	126,546	145,306
Total operating expenses	<u>625,938</u>	<u>606,972</u>
Less - capitalized costs	(32,286)	(33,785)
Net operating expenses	<u>593,652</u>	<u>573,187</u>
Operating loss	<u>(286,282)</u>	<u>(298,063)</u>
NONOPERATING REVENUES (EXPENSES)		
Transactions and use tax (sales tax)	198,805	191,680
Property tax	50,452	43,024
Operating financial assistance	55,546	15,749
Investment income	47,852	31,695
Interest expense	(57,654)	(60,155)
Gain from sale of property, net	-	11,042
Other income (expense), net	(2,976)	(135)
Total nonoperating revenues, net	<u>292,025</u>	<u>232,900</u>
Change in net assets before capital contributions and special item	5,743	(65,163)
Capital contributions	75,283	62,487
Special item: contribution for BART car replacement funding exchange program	(22,680)	-
Change in net assets	<u>58,346</u>	<u>(2,676)</u>
NET ASSETS, Beginning of Year	4,326,288	4,328,964
NET ASSETS, End of Year	<u>\$ 4,384,634</u>	<u>\$ 4,326,288</u>

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, 2007 and 2006
 (dollar amounts in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 284,839	\$ 253,706
Payments to suppliers	(141,613)	(110,323)
Payments to employees	(324,974)	(310,764)
Other operating cash receipts	23,475	16,907
Net cash used in operating activities	<u>(158,273)</u>	<u>(150,474)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transactions and use tax (sales tax) received	143,985	134,790
Property tax received	27,207	24,343
Financial assistance received	58,888	20,298
Net cash provided by noncapital financing activities	<u>230,080</u>	<u>179,431</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Transactions and use tax (sales tax) received	54,820	56,890
Property tax received	23,351	17,652
Capital grants received	72,116	179,624
Proceeds from issuance of 2005 Sales Tax Revenue Bonds	–	352,095
Proceeds from issuance of 2006 Sales Tax Revenue Bonds	–	64,915
Proceeds from issuance of 2006A Sales Tax Revenue Refunding Bonds	108,110	–
Proceeds from construction loans	3,301	10,000
Proceeds from sale of property and equipment	–	22,777
Expenditures for facilities, property and equipment	(147,556)	(109,443)
Principal paid on long-term debt	(271,070)	(475,996)
Payments of long-term debt issuance and service costs	(1,328)	(4,054)
Premium received from issuance of long-term debt	410	17,773
Interest paid on long-term debt	(49,938)	(63,812)
Principal payments received from installment receivable	44	104
Advances from local funding agencies	1,000	4,250
Contribution for BART car replacement funding exchange program	(22,680)	–
Net cash provided by (used in) capital and related financing activities	<u>\$ (229,420)</u>	<u>\$ 72,775</u>

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, 2007 and 2006
 (dollar amounts in thousands)

	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	\$ 439,230	\$ 360,349
Purchase of investments	(90,625)	(509,104)
Investment income	34,399	23,346
Net cash provided by (used in) investing activities	<u>383,004</u>	<u>(125,409)</u>
Net change in cash and cash equivalents	225,391	(23,677)
Cash and cash equivalents, beginning of year	328,245	351,922
Cash and cash equivalents, end of year	<u>\$ 553,636</u>	<u>\$ 328,245</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Current, unrestricted assets - cash and cash equivalents	\$ 329,635	\$ 129,349
Current, restricted assets - cash and cash equivalents	224,001	198,896
Total cash and cash equivalents	<u>\$ 553,636</u>	<u>\$ 328,245</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (286,282)	\$(298,063)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	126,546	145,306
Amortization of deferred charges	106	112
Net effect of changes in:		
Receivables and other assets	(228)	3,331
Materials and supplies	262	(2,363)
Accounts payable and other liabilities	1,972	2,330
Self-insurance liabilities	348	(286)
Deferred revenue	(997)	(841)
Net cash used in operating activities	<u>\$(158,273)</u>	<u>\$(150,474)</u>
NONCASH TRANSACTIONS		
Capital assets acquired with a liability at year-end	\$ 35,791	\$ 41,771
Lease/leaseback obligation additions	7,104	9,242
Lease/leaseback obligation amortization	39,362	50,147
Decrease in fair value of investments	(398)	(8,108)
Amortization of long-term debt premium, discount and issue costs	(2,647)	(988)
Amortization of deferred interest on early debt retirement	1,223	931
Amortization of deferred gain on lease/leaseback transaction	1,482	1,482
Advance from MTC reclassified to construction loan	12,804	-

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, 2007 and 2006
(dollar amounts in thousands)

	<u>2007</u>	<u>2006</u>
ASSETS		
Interest receivable and other assets	\$ 202	\$ 222
Pending trades receivable	2,727	6,074
Investments		
Domestic common stocks	27,801	24,207
U.S. Treasury obligations	13,423	11,099
Money market mutual funds	4,118	3,455
Corporate obligations	2,174	2,827
Foreign stocks	641	428
Foreign obligations	36	336
Total investments	<u>48,193</u>	<u>42,352</u>
Total assets	<u>51,122</u>	<u>48,648</u>
LIABILITIES		
Accounts payable	73	66
Pending trades payable	7,101	8,960
Total liabilities	<u>7,174</u>	<u>9,026</u>
NET ASSETS HELD IN TRUST FOR RETIREE HEALTH BENEFITS	<u>\$ 43,948</u>	<u>\$ 39,622</u>

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 year ended June 30, 2007 and 2006
(dollar amounts in thousands)

	<u>2007</u>	<u>2006</u>
ADDITIONS		
Employer contributions	\$ —	\$ —
Investment income (expense)		
Interest income	1,186	1,099
Net appreciation in fair value of investments	3,411	1,617
Investment expense	(229)	(249)
Net investment income	4,368	2,467
Total additions	<u>4,368</u>	<u>2,467</u>
DEDUCTIONS		
Benefits	—	—
Legal fees	3	5
Audit fees	17	31
Insurance expense	22	14
Total deductions	<u>42</u>	<u>50</u>
Increase in trust net assets	<u>4,326</u>	<u>2,417</u>
NET ASSETS HELD IN TRUST FOR RETIREE HEALTH BENEFITS:		
Beginning of year	<u>39,622</u>	<u>37,205</u>
End of year	<u>\$ 43,948</u>	<u>\$ 39,622</u>

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

1. Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

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

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

Basis of Accounting and Presentation

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Notes to Financial Statements

June 30, 2007 and 2006

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

Cash Equivalents

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

Investments

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

Restricted Assets

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

Capital Grants/Contributions

The District receives grants from the Federal Transit Administration ("FTA") and other agencies of the U.S. Department of Transportation, the State of California, and local transportation funds for the acquisition of transit-related equipment and improvements. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital contributions are required to be included in the determination of changes in net assets resulting in an increase in net revenue of \$75,283,000 and \$62,487,000 for fiscal years 2007 and 2006, respectively. Capital grants receivables represent amounts expected from governmental agencies to reimburse the District for costs incurred for capital projects (see Notes 9 and 10).

Materials and Supplies

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

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

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

Capital Assets

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Notes to Financial Statements

June 30, 2007 and 2006

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

The District capitalizes certain interest income and expense related to tax-free borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax-free borrowings. Amounts capitalized were a net interest income of \$567,000 in fiscal year 2007 and \$324,000 in fiscal year 2006.

Deferred Revenue

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

Compensated Absences

Compensated absences are reported and accrued as a liability in the period incurred. The entire balance of compensated absences in the amounts of \$50,164,000 and \$47,501,000 as of June 30, 2007 and 2006, respectively, is considered short-term and presented as part of accounts payable and other liabilities in the statements of net assets.

Net Assets

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

Transactions and Use Tax (Sales Tax) Revenues

The State of California legislation authorizes the District to impose a 0.5% transaction and use tax within District boundaries, which is collected and administered by the State Board of Equalization. Of the amounts available for distribution, 75% is paid directly to the District for the purpose of paying operating expenses, except for the portion that is paid directly to trustees to cover principal and interest payments of maturing sales tax revenue bonds and equity reserves. The remaining 25% is allocated by the Metropolitan Transportation Commission ("MTC") to the District, the City and County of San Francisco, and the Alameda-Contra Costa Transit District for transit services. The District records the total transactions and use taxes earned (including amounts paid to the trustee) as revenue.

Property Taxes, Collection and Maximum Rates

The State of California Constitution Article XIII.A provides that the general purpose maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Notes to Financial Statements

June 30, 2007 and 2006

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 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 1, 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 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent after August 31.

Operating Financial Assistance

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

Collective Bargaining

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

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

Special Item

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. In fiscal year 2007, the special item of \$22,680,000 shown in the Enterprise Fund's statement of revenues, expenses and changes in net assets is related to the District's fleet replacement program as explained in Note 10.

Capitalized Costs

The District initially charges employee salaries, wages and benefits to operating expenses by functional expense category. Labor costs included in those amounts that are associated with capital projects are subsequently reclassified to be included in the cost of the related capital asset. This reclassification is reflected in the statement of revenues, expenses and changes in net assets as a reduction of operating expenses. The amounts of \$32,286,000 and \$33,785,000 were capitalized during the years ended June 30, 2007 and 2006, respectively.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Notes to Financial Statements

June 30, 2007 and 2006

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

In June of 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (“OPEB”) expense and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers. The District is in the process of analyzing the impact that adopting this statement will have on its financial position and results of operations. This standard becomes effective for the District beginning fiscal year 2008.

In September 2006, GASB issued Statement No.48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether the proceeds received, should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. Application of this statement is effective for the District’s fiscal year ending June 30, 2008.

In November 2006, GASB issued Statement No.49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as land fill closure and post closure care and nuclear power plant decommissioning. Application of this statement is effective for the District's fiscal year ending June 30, 2009.

In May 2007, GASB issued Statement No.50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this statement amend applicable note disclosure and RSI requirements of Statements No.25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No.27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with the requirements of Statements No.43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No.45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Application of this statement is effective for the District's fiscal year ending June 30, 2008.

In June 2007, GASB issued Statement No.51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the

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accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the District's fiscal year ending June 30, 2010.

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):

	2007			2006		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Current assets						
Cash and cash equivalents	\$ 329,635	\$ 224,001	\$ 553,636	\$ 129,349	\$ 198,896	\$ 328,245
Investments	4,663	1,237	5,900	167,708	65,927	233,635
Noncurrent assets						
Investments	-	41,728	41,728	-	171,315	171,315
Total	\$ 334,298	\$ 266,966	\$ 601,264	\$ 297,057	\$ 436,138	\$ 733,195

Investment Policy

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

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

The District's investments include amounts invested in the State of California Local Agency Investment Fund ("LAIF"). The total amount invested by all public agencies in LAIF at June 30, 2007 and 2006 was \$19.7 billion and \$16.4 billion, respectively. LAIF is part of the State of California Pooled Money Investment Account ("PMIA"), whose balance at June 30, 2007 and 2006 was \$65.6 billion and \$63.3 billion, respectively. Of these amounts, 3.5% and 2.6% were invested in structured notes and asset-backed securities and the remaining balance was invested in non-derivative instruments as of June 30, 2007 and 2006, respectively. PMIA is not SEC-registered, but is required

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to invest according to the California Government Code. The average maturity of PMIA investments was 176 days and 152 days as of June 30, 2007 and 2006, respectively. The Local Investment Advisory Board (“Board”) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the pool. Withdrawals from LAIF are done on a dollar to dollar basis.

Interest rate risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. One of the District's primary objectives is to provide sufficient liquidity to meet its cash outflow needs, however, the District does not have any policies specifically addressing interest rate risk. A summary of investments by type of investments and by segmented time distribution as of June 30, 2007 and 2006 is as follows (dollar amounts in thousands):

	2007				
	Fair Value	Less Than 1	Investment Maturities (in Years)		
			1 - 5	6 - 10	More Than 10
Money market mutual funds	\$ 147,238	\$ 147,238	\$ -	\$ -	\$ -
U.S. government agencies	255,706	213,977	3,955	5,094	32,680
Repurchase agreements	115,729	115,729	-	-	-
Local Agency Investment Fund	20,000	20,000	-	-	-
Total investments	538,673	496,944	3,955	5,094	32,680
Deposits with banks	56,313	56,313	-	-	-
Certificates of deposit	5,900	5,300	600	-	-
Imprest funds	378	378	-	-	-
Total cash and investments	\$ 601,264	\$ 558,935	\$ 4,555	\$ 5,094	\$ 32,680

	2006				
	Fair Value	Less Than 1	Investment Maturities (in Years)		
			1 - 5	6 - 10	More Than 10
Money market mutual funds	\$ 114,786	\$ 114,786	\$ -	\$ -	\$ -
U.S. government agencies	286,835	233,526	19,744	363	33,202
Repurchase agreements	268,560	58,290	177,026	33,244	-
Local Agency Investment Fund	20,000	20,000	-	-	-
U.S. Treasury bills	1,132	1,132	-	-	-
Total investments	691,313	427,734	196,770	33,607	33,202
Deposits with banks	40,699	40,699	-	-	-
Certificates of deposit	803	-	803	-	-
Imprest funds	380	380	-	-	-
Total cash and investments	\$ 733,195	\$ 468,813	\$ 197,573	\$ 33,607	\$ 33,202

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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. government agencies, bank repurchase agreements (underlying of U.S. Treasury securities) and in money market mutual funds. There are no investment limits on the securities of U.S. Treasury or certain U.S. government agencies as these investments are backed by the full faith and credit of the United States government. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's, Fitch Ratings and Moody's as of June 30, 2007 and 2006 (dollar amounts in thousands):

	2007	Credit Ratings			
	Fair Value	AAA	AA	A	Not Rated
Money market mutual funds	\$ 147,238	\$ 147,238	\$ -	\$ -	\$ -
U.S. Government agencies	255,706	8,690	-	214,660	32,356
Repurchase agreements	115,729	-	54,674	61,055	-
Local Agency Investment Fund	20,000	-	-	-	20,000
Total investments	538,673	\$ 155,928	\$ 54,674	\$ 275,715	\$ 52,356
Deposits with banks	56,313				
Certificates of deposit	5,900				
Imprest funds	378				
Total cash and investments	\$ 601,264				

	2006	Credit Ratings			
	Fair Value	AAA	AA	A	Not Rated
Money market mutual funds	\$ 114,786	\$ 114,786	\$ -	\$ -	\$ -
U.S. Government agencies	286,835	242,955	-	11,017	32,863
Repurchase agreements	268,560	143,052	125,508	-	-
Local Agency Investment Fund	20,000	-	-	-	20,000
U.S. Treasury bills	1,132	-	-	-	1,132
Total investments	691,313	\$ 500,793	\$ 125,508	\$ 11,017	\$ 53,995
Deposits with banks	40,699				
Certificates of deposit	803				
Imprest funds	380				
Total cash and investments	\$ 733,195				

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 generally recommends that investments to one issuer do not exceed 5% of the entity's total portfolio, except investments issued by or explicitly guaranteed by the U.S. Government and investments in money market mutual funds, external investment pools, and other pooled investments. The following investments exceeded 5% of the District's total investment portfolio (dollar amounts in thousands):

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	2007		2006	
	<u>Amount</u>	<u>Percentage of Total</u>	<u>Amount</u>	<u>Percentage of Total</u>
		<u>Investment</u>		<u>Investment</u>
	<u>Portfolio (%)</u>	<u>Portfolio (%)</u>		
Federal National Mortgage Association	\$183,894	31	\$157,807	22
Federal Home Loan and Mortgage Corporation	39,455	7	94,338	13
Morgan Stanley Repurchase Agreement	61,055	10	58,290	8
MBIA Repurchase Agreement	54,674	9	92,264	13
CDC Funding Corporation Repurchase Agreement	-	-	84,762	12

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.

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B. Investments of the Retiree Health Benefit Trust (“Trust”)

Investment Policy

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

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

Interest rate risk

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

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

A summary of investments by type of investments and by segmented time distribution as of June 30, 2007 and 2006 is as follows (dollar amounts in thousands):

	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	\$ 13,423	\$ 150	\$ 3,073	\$ 3,456	\$ 6,744
Money market mutual funds	4,118	4,118	-	-	-
Corporate obligations	2,174	-	439	248	1,487
Foreign obligations	36	-	-	-	36
Investments subject to interest rate risk	19,751	<u>\$ 4,268</u>	<u>\$ 3,512</u>	<u>\$ 3,704</u>	<u>\$ 8,267</u>
Domestic common stocks	27,801				
Foreign stocks	641				
Total investments	<u>\$ 48,193</u>				

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	2006	Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury obligations	\$ 11,099	\$ 901	\$ 787	\$ 2,587	\$ 6,824
Money market mutual funds	3,455	3,455	-	-	-
Corporate obligations	2,827	15	1,040	522	1,250
Foreign obligations	336	-	43	198	95
Investments subject to interest rate risk	17,717	\$ 4,371	\$ 1,870	\$ 3,307	\$ 8,169
Domestic common stocks	24,207				
Foreign stocks	428				
Total investments	\$ 42,352				

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 Moody's as of June 30, 2007 and 2006 (dollar amounts in thousands):

	2007	Credit Ratings			
	Fair Value	AAA	A	BBB	Not Rated
U.S. Treasury obligations	\$ 13,423	\$ 13,423	\$ -	\$ -	\$ -
Money market mutual funds	4,118	-	-	-	4,118
Corporate obligations	2,174	1,726	281	167	-
Foreign obligations	36	36	-	-	-
Investments subject to credit risk	19,751	\$ 15,185	\$ 281	\$ 167	\$ 4,118
Domestic common stocks	27,801				
Foreign stocks	641				
Total investments	\$ 48,193				

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	2006	Credit Ratings				
	Fair Value	AAA	AA	A	BBB	Not Rated
U.S. Treasury obligations	\$ 11,099	\$ 11,099	\$ -	\$ -	\$ -	\$ -
Money market mutual funds	3,455	-	-	-	-	3,455
Corporate obligations	2,827	1,778	34	408	607	-
Foreign obligations	336	151	-	142	43	-
Investments subject to credit risk	17,717	<u>\$ 13,028</u>	<u>\$ 34</u>	<u>\$ 550</u>	<u>\$ 650</u>	<u>\$ 3,455</u>
Domestic common stocks	24,207					
Foreign stocks	428					
Total investments	<u>\$ 42,352</u>					

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.

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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, 2007 and 2006 (dollar amounts in thousands):

	<u>2007</u>	<u>2006</u>
Interest receivable - trust for sublease obligation	\$ 27,780	\$ 30,950
Interest receivable - other investments	1,361	561
Deferred charges - interest on defeased bonds	30,926	24,510
Deferred charges - other	966	1,074
Local financial assistance - SamTrans	-	8,085
Deposit for power supply	8,003	7,594
Ticket vendors	4,876	4,407
Notes receivable	4,198	4,184
Capitol Corridor Joint Powers Authority	3,602	2,479
Property taxes	1,658	1,763
Prepaid expenses	1,526	1,578
Imprest deposits for self-insurance liabilities	659	522
Other	2,551	1,987
Allowance for doubtful accounts - SamTrans	-	(7,500)
Allowance for doubtful accounts - other	(291)	(71)
Total receivables and other assets	<u>\$ 87,815</u>	<u>\$ 82,123</u>
Current, unrestricted portion	\$ 18,448	\$ 16,722
Noncurrent, unrestricted portion	31,792	25,478
Noncurrent, restricted portion	<u>37,575</u>	<u>39,923</u>
Total receivables and other assets, as presented in the basic financial statements	<u>\$ 87,815</u>	<u>\$ 82,123</u>

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

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

The District recorded a gain on the sale of approximately \$2,015,000, which is equal to the amount of cash received on the sale. The gain was deferred and is being amortized over 30 years. In addition, the District recorded a receivable of \$48,368,000 and a capital lease obligation of the same amount. The receivable and the liability will be reduced by a corresponding amount over the term of the lease. At June 30, 2007 and 2006, the balance of the deferred gain was \$997,000 and \$1,052,000, respectively. The balance of both the receivable and the liability was \$11,041,000 and \$14,195,000 as of June 30, 2007 and 2006, respectively and is reflected in the statements of net assets as a capital lease receivable and capital lease liability, respectively. Other than the cash received upon the sale, no cash will be exchanged between the parties in settlement of the receivable and liability.

At June 30, 2007 and 2006 the balances of the capital lease receivable and of the capital lease liability related to the sale/leaseback are summarized as follows (dollar amounts in thousands):

	<u>2007</u>	<u>2006</u>
amounts at beginning of year	\$ 14,195	\$ 17,349
amounts collected/repaid during the year	<u>(3,154)</u>	<u>(3,154)</u>
Balance at end of year	11,041	14,195
Less - current portion	<u>(3,155)</u>	<u>(3,154)</u>
Net noncurrent portion	<u>\$ 7,886</u>	<u>\$ 11,041</u>

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

<u>Fiscal Year</u> <u>Year Ending June 30</u>	<u>Annual</u> <u>Installments</u>
2008	\$ 3,155
2009	3,154
2010	3,155
2011	<u>1,577</u>
	<u>\$ 11,041</u>

Accumulated depreciation related to the C-2 rail cars covered by the sale/leaseback agreement totaled \$22,379,000 and \$20,526,000 as of June 30, 2007 and 2006, respectively.

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5. Capital Assets

Changes to capital assets during the year ended June 30, 2007 were as follows (dollar amounts in thousands):

Construction in progress	N/A	680,945	146,475	(110,239)	717,181
Total capital assets, not being depreciated		<u>1,205,337</u>	<u>152,592</u>	<u>(110,239)</u>	<u>1,247,690</u>
Capital assets, being depreciated					
Stations, track, structures and improvements	80	3,570,145	24,845	(12,148)	3,582,842
Buildings	80	7,472	-	-	7,472
System-wide operation and control	20	518,311	25,614	(162)	543,763
Revenue transit vehicles	30	1,042,346	-	-	1,042,346
Revenue transit vehicles under capital lease	30	55,593	-	-	55,593
Service and miscellaneous equipment	3-20	59,449	58,368	(295)	117,522
Capitalized construction and start-up costs	30	98,305	-	-	98,305
Repairable property items	30	15,179	36	-	15,215
Total capital assets, being depreciated		<u>5,366,800</u>	<u>108,863</u>	<u>(12,605)</u>	<u>5,463,058</u>
Less accumulated depreciation		<u>(1,627,948)</u>	<u>(126,547)</u>	<u>11,190</u>	<u>(1,743,305)</u>
Total capital assets, being depreciated, net		<u>3,738,852</u>	<u>(17,684)</u>	<u>(1,415)</u>	<u>3,719,753</u>
Total capital assets, net		<u>\$ 4,944,189</u>	<u>\$ 134,908</u>	<u>\$ (111,654)</u>	<u>\$ 4,967,443</u>

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Changes to capital assets during the year ended June 30, 2006 were as follows (dollar amounts in thousands):

	<u>(Years)</u>	<u>2005</u>	<u>Transfers</u>	<u>Transfers</u>	<u>2006</u>
Capital assets, not being depreciated					
Land	N/A	\$ 513,849	\$ 14,713	\$ (4,170)	\$ 524,392
Construction in progress	N/A	861,809	108,803	(289,667)	680,945
Total capital assets, not being depreciated		<u>1,375,658</u>	<u>123,516</u>	<u>(293,837)</u>	<u>1,205,337</u>
Capital assets, being depreciated					
Stations, track, structures and improvements	80	3,311,632	258,520	(7)	3,570,145
Buildings	80	21,871	-	(14,399)	7,472
System-wide operation and control	20	510,286	9,080	(1,055)	518,311
Revenue transit vehicles	30	1,042,346	-	-	1,042,346
Revenue transit vehicles under capital lease	30	55,593	-	-	55,593
Service and miscellaneous equipment	3-20	61,416	99	(2,066)	59,449
Capitalized construction and start-up costs	30	98,305	-	-	98,305
Repairable property items	30	16,161	-	(982)	15,179
Total capital assets, being depreciated		<u>5,117,610</u>	<u>267,699</u>	<u>(18,509)</u>	<u>5,366,800</u>
Less accumulated depreciation		<u>(1,495,399)</u>	<u>(145,306)</u>	<u>12,757</u>	<u>(1,627,948)</u>
Total capital assets, being depreciated, net		<u>3,622,211</u>	<u>122,393</u>	<u>(5,752)</u>	<u>3,738,852</u>
Total capital assets, net		<u>\$ 4,997,869</u>	<u>\$ 245,909</u>	<u>\$ (299,589)</u>	<u>\$ 4,944,189</u>

The District has completed construction of Phase 1 of an extension program that added 38 miles of track and 10 new stations to the system at a total cost of approximately \$3,477,127,000. The funding for Phase 1 came from the Federal Government (\$877,634,000), State of California (\$741,770,000), San Mateo County (\$502,719,000), Alameda and Contra Costa Counties (\$505,000,000), bridge tolls (\$279,811,000), San Francisco International Airport (\$200,000,000), and the District (\$370,193,000).

With the completion and pending close out of the project phase of the San Francisco Airport Extension, the District's focus turned to other important projects and cooperative studies. Looking east, the proposed East Contra Costa BART Extension ("eBART") in Contra Costa County is moving forward in cooperation with affected jurisdictions, and the West Dublin/Pleasanton Infill Station is moving under construction. Projects grappling with funding shortfalls include the Oakland Airport Connector ("OAC"), for which the District is looking at alternative delivery options to move forward, and the Warm Springs Extension. Additionally, BART is leading the Regional Measure 2 ("RM2") funded Regional Rail Study, which will attempt to define the passenger rail network in the Bay Area.

The District has entered into contracts for the construction of various facilities and equipment totaling approximately \$587,633,000 at June 30, 2007, and \$553,859,000 in 2006.

Under the Federal Full Funding Grant Agreement, \$1,347,230,000 was approved for project costs associated with the San Francisco International Airport Extension ("SFO Extension project") with funding participation from the Federal Government, State of California and certain local agencies. As a local funding participant, the San Francisco International Airport Commission ("SFIA") pledged to contribute funds to the federally approved project up to \$77,000,000. The District entered into various agreements with the City and County of San Francisco, acting by and through SFIA,

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which defined the specific project costs that could be funded from the \$77,000,000 contribution. The agreements stated that the contribution would be used for the eligible BART Operating Systems Work on the portion of the project related to the San Francisco International Airport station (“On Airport project”). Eligible project costs include the design, construction, construction support, management and oversight, general and administrative costs and other associated costs of the On Airport project. Based on the agreements between SFIA and the District, SFIA shall own all rights, titles and interest associated with the assets paid from the \$77,000,000 until the end of the projected useful life of each asset at which time, all of SFIA’s rights, titles and interest associated with the assets shall transfer to the District, without payment by the District. The risk of loss on all assets acquired from the SFIA contributions are, at all times, assumed by the District.

The construction of the SFO Extension project was completed in 2003 and revenue operations started on June 22, 2003. All costs incurred as of June 30, 2007, including those paid from and/or incurred against the SFIA contribution, have been capitalized to capital assets and accordingly are subject to depreciation. As of June 30, 2007, the capital assets related to the SFIA contribution amounted to \$61,256,000 with an accumulated depreciation of \$3,496,000.

6. Accounts Payable and Other Liabilities

The District reports the following aggregated payables as accounts payable and other liabilities in the statements of net assets as of June 30, 2007 and 2006 (dollar amounts in thousands):

Payable to vendors and contractors	\$ 71,277	\$ 77,430
Employee salaries and benefits	74,312	72,594
Accrued interest payable	23,428	21,123
MTC advance for debt service	-	12,480
	<hr/>	<hr/>
Liabilities at the end of year	169,017	183,627
Less noncurrent portion, reported within other liabilities	(1,298)	(258)
	<hr/>	<hr/>
Net current portion	\$ 167,719	\$ 183,369
	<hr/>	<hr/>

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
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7. Long-Term Debt

Long-term debt activity for the years ended June 30, 2007 and 2006 is summarized as follows (dollar amounts in thousands):

	<u>2006</u>	<u>Additions/ Accretion</u>	<u>Payments/ Amortization</u>	<u>2007</u>
1990 Sales Tax Revenue Refunding Bonds	\$ 28,775	\$ -	\$ -	\$ 28,775
1998 Sales Tax Revenue Bonds	171,765	-	(8,675)	163,090
2001 Sales Tax Revenue Bonds	146,325	-	(102,560)	43,765
2005 Sales Tax Revenue Refunding Bonds	352,095	-	(12,655)	339,440
2006 Sales Tax Revenue Bonds	64,915	-	-	64,915
2006 Sales Tax Revenue Refunding Bonds	-	108,110	-	108,110
TFA Bridge Toll Notes	21,785	-	(21,785)	-
Construction Loans	129,395	16,105	(10,000)	135,500
FTA Capital Grant Bonds	46,330	-	(46,330)	-
Lease/Leaseback Obligation	140,252	-	(28,826)	111,426
2002 SFO Extension Premium Fare Bonds	56,715	-	(550)	56,165
2004 SFO Extension Refunding Bonds	55,700	-	(55,700)	-
2005 General Obligation Bonds	100,000	-	(12,815)	87,185
	<u>1,314,052</u>	<u>124,215</u>	<u>(299,896)</u>	<u>1,138,371</u>
Add (less):				
Accumulated Accretion on Lease/ Leaseback Obligation	17,757	10,048	(10,536)	17,269
Debt related items*	7,620	(685)	(184)	6,751
	<u>1,339,429</u>	<u>\$ 133,578</u>	<u>\$ (310,616)</u>	<u>1,162,391</u>
Less: current portion of long-term debt	<u>(152,172)</u>			<u>(57,617)</u>
Net long-term debt	<u>\$ 1,187,257</u>			<u>\$ 1,104,774</u>

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

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
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	<u>2005</u>	<u>Additions/ Accretion</u>	<u>Payments/ Amortization</u>	<u>2006</u>
1990 Sales Tax Revenue Refunding Bonds	\$ 28,775	\$ -	\$ -	\$ 28,775
1995 Sales Tax Revenue Bonds	47,590	-	(47,590)	-
1998 Sales Tax Revenue Bonds	341,190	-	(169,425)	171,765
1999 Sales Tax Revenue Bonds	131,300	-	(131,300)	-
2001 Sales Tax Revenue Bonds	165,965	-	(19,640)	146,325
2005 Sales Tax Revenue Refunding Bonds	-	352,095	-	352,095
2006 Sales Tax Revenue Bonds	-	64,915	-	64,915
TFA Bridge Toll Notes	30,280	-	(8,495)	21,785
Construction Loans	123,900	8,495	(3,000)	129,395
FTA Capital Grant Bonds	131,250	-	(84,920)	46,330
Lease/Leaseback Obligation	178,879	-	(38,627)	140,252
2002 SFO Extension Premium Fare Bonds	56,715	-	-	56,715
2004 SFO Extension Refunding Bonds	66,000	-	(10,300)	55,700
2005 General Obligation Bonds	100,000	-	-	100,000
	<u>1,401,844</u>	<u>425,505</u>	<u>(513,297)</u>	<u>1,314,052</u>
Add (less):				
Accumulated Accretion on Lease/Leaseback Obligation	18,554	12,049	(12,846)	17,757
Debt related items*	(14,329)	22,936	(987)	7,620
Long-term debt net of accumulated accretion and debt related items	1,406,069	<u>\$ 460,490</u>	<u>\$ (527,130)</u>	1,339,429
Less: current portion of long-term debt	(172,782)			(152,172)
Net long-term debt	<u>\$ 1,233,287</u>			<u>\$ 1,187,257</u>

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

1990 Sales Tax Revenue Refunding Bonds (the 1990 Bonds)

In July 1990, the District issued sales tax revenue refunding bonds totaling \$158,478,000 to refund and defease \$141,045,000 outstanding principal amount of the District's Sales Tax Revenue Bonds, Series 1985. The 1990 Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. At June 30, 2007, the 1990 Bonds consist of \$28,775,000 in current interest serial bonds due from 2010 to 2011 with an interest rate of 6.75%.

1995 Sales Tax Revenue Bonds (the 1995 Bonds)

In June 1995, the District issued sales tax revenue bonds totaling \$135,000,000 to provide funds for certain capital improvements including rehabilitation of District vehicles and facilities and energy conservation measures. The 1995 Bonds are special obligations of the District payable from and collateralized by a pledge of sales tax revenues. At June 30, 2007, there are no outstanding 1995 Bonds.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Notes to Financial Statements

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1998 Sales Tax Revenue Bonds (the 1998 Bonds)

In March 1998, the District issued sales tax revenue bonds totaling \$348,510,000 to provide funds for certain capital improvements, including rehabilitation of the District's vehicles and facilities, to repay obligations of approximately \$49,645,000 related to a lease of certain telecommunications equipment, and to refund certain outstanding bonds with principal amounts of \$155,115,000 to achieve debt service savings. The 1998 Bonds are special obligations of the District payable from and collateralized by a pledge of sales tax revenues. In August 2005, a portion of the 1998 Bonds with an aggregate principal amount of \$155,650,000 were refunded from the proceeds of the 2005 Bonds. At June 30, 2007, the 1998 Bonds consist of \$43,260,000 in serial bonds due from 2007 to 2018 with interest rates ranging from 4.30% to 5.50%, a \$79,105,000 term bond due July 1, 2023 with an interest rate of 4.75% and a \$40,725,000 term bond due July 1, 2028 with an interest rate of 5%. The District is required to make sinking fund payments on the term bond due July 1, 2023 beginning on July 1, 2019 and on the term bond due July 1, 2028 beginning on July 1, 2024. In addition, the 1998 bonds maturing after June 30, 2009 may be redeemed prior to their respective maturities after June 30, 2008 at the option of the District at prices ranging from 100% to 101%.

1999 Sales Tax Revenue Bonds (the 1999 Bonds)

In October 1999, the District issued sales tax revenue bonds totaling \$134,945,000 to provide funds for certain capital improvements including rehabilitation of the District's vehicles, initial deposit to a capital reserve account for the San Francisco International Airport ("SFO Extension project") and rehabilitation of the District's maintenance facility. The 1999 Bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. There are no outstanding 1999 Bonds at June 30, 2007.

2001 Sales Tax Revenue Bonds (the 2001 Bonds)

In July 2001, the District issued sales tax revenue bonds totaling \$168,650,000 to fund the rehabilitation of District rail cars and certain other capital improvements, to fund capital reserves to be utilized in connection with the SFO Extension project and to refund certain outstanding bonds with principal amounts of \$41,175,000 to achieve cash flow savings by extending the debt service requirements further into the future and to take advantage of lower interest rates. 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, 2007, the 2001 Bonds consist of \$15,310,000 in serial bonds due from 2012 to 2021 with interest rates ranging from 4.375% to 5.250%, a \$7,225,000 term bond due July 1, 2026 with an interest rate of 5%, a \$9,275,000 term bond due July 1, 2031 with an interest rate of 5%, and a \$11,955,000 term bond due July 1, 2036 with an interest rate of 5.125%. The District is required to make sinking fund payments on the term bond due July 1, 2026 beginning on July 1, 2022, on the term bond due July 1, 2031 beginning July 1, 2027, and on the term bond due on July 1, 2036 beginning on July 1, 2032. In addition, the 2001 Bonds maturing on or after July 1, 2012 may be redeemed prior to their respective stated maturities, at the option of the District, as a whole or in part, on any date on or after July 1, 2011, at the principal amount called for redemption plus interest accrued thereon to the date fixed for redemption without premium.

2005 Sales Tax Revenue Refunding Bonds (the 2005 Bonds)

In August 2005, the District issued the Sales Tax Revenue Bonds, Refunding Series 2005 A totaling \$352,095,000. The proceeds of the 2005 Bonds, including the net original issue premium of \$17,151,000, were (1) placed into an irrevocable escrow account to advance refund \$349,925,000 in aggregate principal amount of sales tax revenue bonds related to the Sales Tax Revenue Bonds,

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Series 1995, 1998, 1999, and 2001 to achieve cash flow savings and (2) to pay costs of issuance of the 2005 Bonds. The 2005 Bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2007, the 2005 Bonds consist of \$250,320,000 in serial bonds due from 2007 to 2026 with interest rates ranging from 3.00% 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. This refunding resulted in a cash flow savings of \$19,326,000 and an economic gain of \$16,768,000.

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, 2007, the 2006 Bonds outstanding consist of \$20,110,000 in serial bonds due from 2014 to 2026 with interest rates ranging from 4.000% to 4.625%, \$17,995,000 in term bonds due July 1, 2031 with 5.000% interest rate and \$26,810,000 in term bonds due July 1, 2036 at 5.000% 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. The 2006 Refunding Bonds consist of serial bonds amounting to \$53,540,000 with interest rates ranging from 4.0% to 5.0%, and term bonds totaling \$54,570,000 of various maturity dates from 2029 to 2036 with an interest rate of 4.25%. The term bonds are subject to redemption in part, by lot, from Mandatory Sinking Account Payments required by the Indenture on certain dates, at the principal amount of the 2006 Refunding Bonds to be redeemed plus accrued interest, if any, to the redemption date. The refunding resulted in a cash flow savings of \$6,711,000 and an economic gain of \$6,402,000.

Transit Financing Authority (“Authority”) Bridge Toll Notes

In order to fund a portion of the costs of the SFO extension project in September 1999, the Authority issued a limited liability note (the “Bridge Toll Note”) in the amount of \$65,680,000, payable from and collateralized solely by a pledge of certain bridge toll revenues allocated to the District by MTC. At June 30, 2007, there are no outstanding Bridge Toll Notes. (For information on the Authority, see Notes 1 and 15.)

Construction Loans

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

Pursuant to the MOU, the construction loans as of June 30, 2007, consist of funds received for the SFO Extension project costs from SamTrans for \$72,000,000 and MTC for \$16,500,000 and \$47,000,000 from MTC for the SFO Extension project’s temporary cash requirements. The District provided \$50,000,000 of its own funds to assist with the financing of the SFO Extension project costs. The terms and conditions of the MOU provide that the loans for project costs will be repaid,

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without interest, from the future net operating surplus generated by the SFO Extension. Such repayments of the loans for project cost from SamTrans and MTC totaling \$88,500,000 plus the District's \$50,000,000, will commence after SamTrans' capital contribution to the District's Warm Springs Extension project is fully paid. Under the terms of the MOU, MTC's loan for the project's temporary cash requirements of \$47,000,000 will be repaid, without interest, when the District receives the last Federal Full Funding Grant allocation for the SFO Extension project, which was received in June 2007. On June 28, 2006, the District and MTC entered into a Loan Extension and Repayment Agreement, where MTC agreed to extend the repayment period and amortize the principal for the loan over a nine year term, charging 3% simple interest, with final payment due in June 2015. Under the agreement STA funds amounting to \$10,000,000 received by the District in July 2006 was used to prepay a portion of the loan.

FTA Capital Grant Bonds

On February 15, 2001, the Association of Bay Area Governments ("ABAG") issued BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A, in the amount of \$485,350,000. The FTA Capital Grant bonds were issued for the benefit of the District's SFO Extension project. The proceeds were used mainly to provide additional financing for the SFO Extension project and to refund and defease \$300,000,000 aggregate principal amount of the San Francisco Bay Area Transit Financing Authority Commercial Paper Notes, Series A, B, C, D, E and F. The bonds are limited obligations of ABAG and are payable from the monies coming from the Federal Full Funding Grant Agreement between the United States Department of Transportation, Federal Transit Administration and the District for the District's SFO Extension project. There are no bonds outstanding at June 30, 2007.

Lease/Leaseback Obligation

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

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

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

The details of the lease/leaseback obligation, including the accretion of interest, are as follows (dollar amounts in thousands):

Long-term debt at beginning of year	\$ 158,009	\$ 197,433
Interest expense incurred during the year	10,048	12,049
Payments made towards principal	(28,826)	(38,627)
Payments made towards accumulated accretion	<u>(10,536)</u>	<u>(12,846)</u>
Total long-term debt at end of year	128,695	158,009
Lease payments due in one year	<u>(12,812)</u>	<u>(39,362)</u>
Net long-term debt at end of year	<u>\$ 115,883</u>	<u>\$ 118,647</u>

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

On October 1, 2002, the Association of Bay Area Governments (“ABAG”) issued BART SFO Extension Bonds (“Airport Premium Fare Bonds”), 2002 Series, in the amount of \$56,715,000. The Airport Premium Fare Bonds were issued for the benefit of the District’s SFO Extension project. The proceeds were used to finance a portion of the costs of the SFO Extension project, including all system-wide and associated improvements and expenditures related to the extension. The Airport Premium Fare Bonds are limited obligations of ABAG payable solely from and collateralized solely by amounts received from the District pursuant to a Pledge and Contribution Agreement, dated October 1, 2002, between ABAG and the District. The Airport Premium Fare Bonds are not a general obligation of ABAG. The District’s obligation to make payments under the Pledge and Contribution Agreement is limited to and payable solely from and collateralized solely by a pledge of the premium fare imposed and collected by the District from passengers who board or depart the District’s rapid transit system at the San Francisco International Airport station. The District’s obligation to make such payments under the Pledge and Contribution Agreement is not a general obligation of the District. The payment of the principal and interest when due are insured by a financial guaranty insurance policy issued by an insurance company. At June 30, 2007, the 2002 Airport Premium Fare Bonds consist of \$20,965,000 in serial bonds due from 2007 to 2022 with interest rates ranging from 2.25% 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.

2004 SFO Extension Refunding Bonds (the Airport Refunding Bonds)

On June 14, 2004, ABAG issued BART SFO Extension Refunding Bonds (FTA Capital Grant), 2004 Series A (Auction Rate Securities) with an aggregate principal amount of \$66,000,000 for the benefit of the District. The Airport Refunding Bonds were issued in order to refund a portion of the ABAG BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A, to fund the reserve fund deposit with respect to the Airport Refunding Bonds, and to pay certain costs of issuance of the bonds. The issuance of the Airport Refunding Bonds had the effect of freeing up \$14,600,000 from the debt service reserve fund of the BART SFO Extension Bonds (FTA Capital Grant), 2001 Series A, and making the amount available as an additional source of cash for the payment of the SFO Extension Project expenditures. There are no outstanding Airport Refunding Bonds at June 30, 2007.

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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, 2007, the 2005 GO Bonds consist of \$67,570,000 in serial bonds due from 2007 to 2026 with interest ranging from 2.75% 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.

Defeased Bonds

On various dates, the District issued bonds to refund certain outstanding sales tax revenue bonds previously issued by the District. In March 1998, the District used a portion of the proceeds of the 1998 Bonds to defease certain bonds outstanding with principal amounts totaling \$155,115,000. In July 2001, the District issued the 2001 Bonds and used a portion of the proceeds to defease selected bonds outstanding with principal amounts adding up to \$41,175,000. In August 2005, the District refunded \$349,925,000 aggregate principal amount of bonds outstanding from the proceeds of the 2005 Bonds. The bonds refunded in August 2005, consisted of \$45,275,000 of the 1995 Bonds, \$155,650,000 of the 1998 Bonds, \$129,360,000 of the 1999 Bonds and \$19,640,000 of the 2001 Bonds. In November 2006, a portion of the 2001 Bonds with an aggregate principal amount of \$102,560,000 was advanced refunded from the proceeds of the 2006 Refunding Bonds.

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

The outstanding principal balances of the defeased bonds as of June 30, 2007 and 2006 are \$452,485,000 and \$349,925,000, respectively and consist of (dollar amounts in thousands):

	<u>2007</u>	<u>2006</u>
August 2005 defeasance	\$ 349,925	\$ 349,925
November 2006 defeasance	102,560	-
	<u>\$ 452,485</u>	<u>\$ 349,925</u>

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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 interest on early debt retirement is \$30,926,000 at June 30, 2007 and \$24,510,000 on June 30, 2006, and are shown as receivables and other assets in the statements of net assets. Amortization expense on these deferred charges was \$1,223,000 in fiscal year 2007 and \$931,000 in fiscal year 2006.

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, 2007, the District has recorded an estimated arbitrage liability amounting to \$1,357,000 and \$674,000 in 2006, which is included in other liabilities in the statements of net assets.

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Debt Repayments

The following is a schedule of long-term debt principal and interest payments required as of June 30, 2007 (dollar amounts in thousands):

Sales Tax Revenue Bonds												
Year ending June 30:	1990 Bonds		1998 Bonds		2001 Bonds		2005 Bonds		2006 Bonds		2006 Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ -	\$ 1,942	\$ 5,540	\$ 7,734	\$ -	\$ 7,310	\$ 13,650	\$ 15,458	\$ -	\$ 3,131	\$ 180	\$ 2,200
2009	-	1,942	5,895	7,480	-	7,310	14,295	14,884	-	3,131	190	2,200
2010	-	1,942	6,205	7,139	-	7,310	14,965	14,227	-	3,131	195	2,200
2011	13,870	1,007	1,625	7,053	-	7,310	6,840	14,005	-	3,131	205	2,200
2012	14,905	-	3,325	6,879	-	7,310	8,225	13,593	-	3,131	210	2,200
2013-2017	-	-	13,180	32,307	9,675	33,101	66,135	59,740	1,300	15,574	12,680	9,501
2018-2022	-	-	48,345	25,602	5,635	29,428	58,015	42,689	7,160	14,537	13,520	7,780
2023-2027	-	-	61,480	8,826	7,225	23,301	68,195	30,883	11,650	12,356	21,490	6,140
2028-2032	-	-	17,495	448	9,275	15,317	64,710	10,394	17,995	8,653	26,575	4,037
2033-2037	-	-	-	-	11,955	4,886	24,410	1,261	26,810	2,885	32,865	1,287
Thereafter	-	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 28,775</u>	<u>\$ 6,833</u>	<u>\$ 163,090</u>	<u>\$ 103,468</u>	<u>\$ 43,765</u>	<u>\$ 142,583</u>	<u>\$ 339,440</u>	<u>\$ 217,134</u>	<u>\$ 64,915</u>	<u>\$ 69,660</u>	<u>\$ 108,110</u>	<u>\$ 39,745</u>

Year ending June 30:	Construction Loans		Lease/ Leaseback Obligation		2002 SFO Extension Premium Fare Bonds		2005 General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 5,000	\$ 1,410	\$ 7,783	\$ 5,029	\$ 570	\$ 2,709	\$ 19,865	\$ 2,854	\$ 52,588	\$ 49,777
2009	5,000	1,260	712	6,586	640	2,693	25,960	1,955	52,692	49,441
2010	8,000	1,110	17,086	9,116	715	2,672	870	1,856	48,036	50,703
2011	8,000	870	5,192	2,923	795	2,647	895	1,829	37,422	42,975
2012	8,000	630	-	257	875	2,617	920	1,801	36,460	38,418
2013-2017	13,000	540	-	4,054	5,880	12,340	5,085	8,491	126,935	175,648
2018-2022	-	-	80,653	82,832	9,170	10,411	6,155	7,320	228,653	220,599
2023-2027	-	-	-	-	13,550	7,504	7,820	5,564	191,410	94,574
2028-2032	-	-	-	-	19,280	3,311	7,720	3,444	163,050	45,604
2033-2037	-	-	-	-	4,690	19	11,895	801	112,625	11,139
Thereafter	88,500	-	-	-	-	-	-	-	88,500	-
	<u>\$ 135,500</u>	<u>\$ 5,820</u>	<u>\$ 111,426</u>	<u>\$ 110,797</u>	<u>\$ 56,165</u>	<u>\$ 46,923</u>	<u>\$ 87,185</u>	<u>\$ 35,915</u>	<u>\$ 1,138,371</u>	<u>\$ 778,878</u>

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8. Risk Management

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

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

The estimated liability for insurance claims at June 30, 2007 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, 2007 and 2006, the estimated amounts of these liabilities were \$28,702,000 and \$28,354,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal year are as follows (dollar amounts in thousands):

	<u>2007</u>	<u>2006</u>
Liabilities at beginning of year	\$ 28,354	\$ 28,640
Current year claims and changes in estimates	8,625	8,547
Payments of claims	<u>(8,277)</u>	<u>(8,833)</u>
Liabilities at the end of year	28,702	28,354
Less current portion	<u>(9,152)</u>	<u>(9,174)</u>
Net noncurrent portion	<u><u>\$ 19,550</u></u>	<u><u>\$ 19,180</u></u>

9. Federal Capital Financial Assistance

The U.S. Department of Transportation and other Federal agencies provide financial assistance to the District for capital projects, construction, planning and technical assistance. Cumulative information for grants which were active during the year ended June 30, 2007 are summarized as follows (dollar amounts in thousands):

Total approved project costs	<u><u>\$ 2,009,500</u></u>
Cumulative amounts of project costs incurred and earned	\$ 1,086,170
Less: approved federal allocations received	<u>(1,075,365)</u>
Capital grants receivable - Federal	<u><u>\$ 10,805</u></u>

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10. State and Local Operating Financial Assistance

The District is eligible to receive local operating and capital assistance from the Transportation Development Act Funds (“TDA”). There was no TDA operating or capital assistance received in fiscal years 2007 or 2006.

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 allocation of \$21,182,000 in fiscal year 2007, and \$2,925,000 in fiscal year 2006. The District also received an STA capital allocation amounting to \$1,170,000 in fiscal year 2004, of which \$99,000 was earned during fiscal year 2007 and \$63,000 in fiscal year 2006.

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, in October 2006, MTC allocated a Federal Section 5307 Grant for \$22,680,000 to fund the District’s preventive maintenance expenses. Accordingly, the District remitted to MTC the equivalent amount of its own funds, which was deposited by MTC to the restricted account. The federal grant is shown as nonoperating revenue – operating financial assistance and the District’s remittance to MTC is shown as special item in the District’s financial statements.

The District receives Paratransit funds provided to cities and transit operators from Alameda County Measure B funds to be used for services aimed at improving mobility for seniors and persons with disabilities. The Alameda County Transportation Improvement Authority (“ACTIA”) is the administrator of Measure B funds. The District’s revenues in fiscal 2007 and 2006 that relate to the Measure B funds were \$1,609,000 and \$1,562,000, respectively.

On February 28, 2007, the District, SamTrans, and MTC entered into a Three Party Financial Agreement establishing the new operational and financial arrangement regarding the BART San Francisco International Airport Extension. To fund the operating costs of the SFO Extension, the agreement provided that (1) the District will receive up-front funding totaling \$56,000,000 from MTC and 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 \$801,024 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. Before the Three Party Financial Agreement was executed on February 28, 2007, SamTrans reimbursed the District for a portion of the operating costs

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in excess of fare revenues identified to the SFO Extension. For fiscal year 2007, under such reimbursement arrangement, the District recognized \$4,701,000 and \$10,206,000 in 2006 in operating financial assistance from SamTrans.

11. Employees' Retirement Benefits

Plan Description

All employees are eligible to participate in the Public Employees' Retirement Fund (the "Fund") of the State of California's Public Employees' Retirement System ("CalPERS") under the Miscellaneous Plan and the Safety Plan of the San Francisco Bay Area Rapid Transit District. The Fund is an agent multiple-employer defined-benefit retirement plan that acts as a common investment and administrative agent for 2,597 local public agencies and school districts within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and District contractual agreements.

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

Funding Policy and Annual Pension Cost

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

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2007 and 2006 was \$223,792,000 and \$220,757,000, respectively. The District's 2007 and 2006 payroll for all employees was \$275,520,000 and \$252,919,000, respectively. The District, due to collective bargaining agreements, also reimburses the employees for their contributions, which are 9% for public safety personnel and 7% for miscellaneous covered employees.

The annual required contribution for fiscal year 2007 was determined by an actuarial valuation of the Plans as of June 30, 2004. The contribution rates for fiscal year 2007 were 9.317% and 8.717% in 2006 of covered payroll for the Miscellaneous Plan and 29.942% in 2007 and 32.324% in 2006 for the Safety Plan. The significant actuarial economic assumptions used in the 2004 valuation to determine the annual required contribution were an investment rate of return of 7.75%, projected salary increases from 3.25% to 14.45% for the Miscellaneous Plan employees and 3.25% to 13.15% for the Safety Plan employees depending on age, service and type of employment, and annual payroll increases of 3.00% attributable to inflation and 0.25% due to production growth.

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Since the District has made the actuarially-determined required contributions since 1988, the pension liability or asset was zero at June 30, 2007, in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

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

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed (%)</u>	<u>Net Pension Obligation</u>
Miscellaneous Plan:	June 30, 2005	\$ 5,586	100	\$ -
	June 30, 2006	17,849	100	-
	June 30, 2007	19,382	100	-
Safety Plan:	June 30, 2005	4,534	100	-
	June 30, 2006	4,925	100	-
	June 30, 2007	4,786	100	-

Funded Status

The funded status applicable to the District's employee group at June 30, 2006 (the latest available for the Fund) is summarized as follows (dollar amounts in thousands):

Funded Status of the Miscellaneous Plan

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Status (%)</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Payroll (%)</u>
6/30/04	\$ 1,023,593	\$ 992,217	\$ 31,376	96.9	\$ 209,675	15.0
6/30/05	1,138,543	1,071,223	67,320	94.1	214,698	31.4
6/30/06	1,227,056	1,162,531	64,524	94.7	211,146	30.6

Funded Status of the Safety Plan

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Status (%)</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Payroll (%)</u>
6/30/04	\$ 113,237	\$ 87,575	\$ 25,662	77.3	\$16,040	160.0
6/30/05	129,350	98,677	30,674	76.3	15,221	201.5
6/30/06	140,160	108,568	31,592	77.5	15,155	208.5

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12. Money Purchase Pension Plan

Most District employees participate in the Money Purchase Pension Plan, which is a supplemental retirement defined contribution plan. In January 1981, the District's employees elected to withdraw from the Federal Social Security System ("FICA") and established the Money Purchase Pension Plan. The District contributes an amount equal to 6.65% of eligible employees' annual compensation (up to \$29,700 after deducting the first \$133 paid during each month) up to a maximum annual contribution of \$1,868. The non-represented employees receive an additional contribution equal to 1.627% of their annual compensation. The annual compensation limit subject to the additional contribution is established by the Internal Revenue Code Section 401(a)(17). For employees hired on or before July 1, 1993, the annual compensation limit is \$335,000 in calendar year 2007 and \$325,000 in calendar year 2006. For employees hired after July 1, 1993, the annual compensation limit is \$225,000 in calendar year 2007 and \$220,000 in calendar year 2006. 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, 2007 and 2006 were \$6,681,000 and \$6,805,000, respectively. The Money Purchase Pension Plan assets at June 30, 2007 and 2006 (excluded from the accompanying financial statements) per the plan administrator's unaudited report were \$282,038,000 and \$262,898,000, respectively. At June 30, 2007, there were approximately 246 (304 in 2006) participants receiving benefits under this plan.

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

13. Other Postemployment Benefits

In addition to the retirement benefits described in Notes 11 and 12, and specified in the District's contractual agreements, the District provides other postemployment benefits ("OPEB") to employees, which include medical benefits to retirees and surviving spouses, retiree life insurance, survivor dental and vision benefits, and medical benefits to survivors of active employees. Most employees who retire directly from the District or their surviving spouses are eligible for medical benefits if the employee retires at or after age 50 with a minimum of 5 years of service with the District, elects to take an annuity from CalPERS and makes a timely election of retiree medical.

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

On May 18, 2004, the District created the Retiree Health Benefit Trust for the San Francisco Bay Area Rapid Transit District (the "Trust"). The purpose of establishing the Trust is to facilitate the provision of medical benefits and other health and welfare benefits for the qualifying retirees of the District; to provide the means for financing the costs and expenses of operating and administering such benefits; to hold Trust assets for the sole and exclusive purpose of providing benefits to

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
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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.

As of June 30, 2007, the District had made a total cash contribution, excluding pay-as-you-go cost, of \$36,222,000 to the Trust. At June 30, 2007, assets held in the Trust included investment in money market mutual funds, U.S. Treasury obligations, corporate obligations, foreign obligations, foreign stocks, and domestic common stocks with an aggregate fair value of \$48,193,000 (\$42,352,000 in 2006). These investments are included in the District's financial statements and are restricted to use for payment of retiree benefit liabilities that will be recorded when GASB 45 is adopted.

Basis of Accounting. The financial statements of the Trust are prepared using the accrual basis of accounting. The Trust recognizes contributions from 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.

Funding Policy and Long Term Contract for Contributions. The District's current collective bargaining agreements with its unions ("CBA") describe the District's funding commitments to the Trust. Beginning fiscal year 2008, the District will fund a "ramp up" (increasing) percentage of the "full" annual required contribution ("ARC") in addition to the pay-as-you-go amount every year for the following six years. Including fiscal years 2006 and 2007, 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, the District will, at a minimum, contribute into the Trust a lump sum make up payment no later than June 30, 2009, reflecting the amounts it would have contributed for fiscal years 2006 and 2007. The lump sum makeup payment is equal to the sum of 3.22% of fiscal year 2006 payroll and 3.36% of fiscal year 2007 payroll, which is actuarially calculated to be \$14,000,000. 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.

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Currently, the retiree pays \$77.25 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 District paid, on a pay-as-you-go basis, a total of \$10,517,000 for health insurance premiums for 1,355 retirees and surviving spouses in fiscal year 2007 and \$8,634,000 for 1,226 retirees and surviving spouses in fiscal year 2006. 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.

Funded Status. The latest OPEB actuarial study was performed by Mercer Human Resource Consulting (“Mercer”) in June 2006 using District data as of June 30, 2005. The study used the entry age normal funding method expressed as a level percentage of payroll and a closed 30-year, beginning June 30, 2004 and ending June 30, 2034, amortization schedule for the unfunded actuarial accrued liabilities (“UAAL”). Actuarial assumptions used include an investment return rate of 6.75% and an overall payroll growth of 3.75% per year including 3.00% attributable to inflation.

The funded status of the actuarial accrued liability at the end of fiscal year 2006 based on Mercer’s actuarial report of June 2006 is as follows (dollar amounts in thousands):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll (%)</u>
6/30/06	\$ 40,945	\$ 331,198	\$ 290,253	12.4	\$ 245,112	118.4

14. Board of Directors’ Expenses

Total Directors’ expenses, consisting of travel and other business related expenses for the years ended June 30, 2007 and 2006 amounted to \$38,000 and \$37,000, respectively.

15. Transit Financing Authority

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

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

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

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

	<u>2007</u>	<u>2006</u>
Authority's total assets		
Amount	\$ 64,910	\$ 92,472
As a % of District's total assets	1.1%	1.6%
Authority's total liabilities		
Amount	\$ 64,910	\$ 92,472
As a % of District's total liabilities	4.6%	5.7%
Authority's total net assets		
Amount	\$ -	\$ -

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

16. Related Organizations and 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.

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The District charged Capitol Corridor a total of \$4,104,000 for marketing and administrative services during 2007 and \$3,791,000 during 2006. In addition, Capitol Corridor reimburses the District for its advances for capital project expenditures and other operating expenses. Reimbursements for expenses incurred by the District on behalf of and in providing services to Capitol Corridor are netted against the corresponding expense in the statements of revenues, expenses and changes in net assets. At June 30, 2007, unreimbursed expenses from Capitol Corridor amount to \$3,654,000 and \$2,480,000 as of June 30, 2006. All unreimbursed expenses are included as current receivables and other assets in the statements of net assets. As the District has no ownership involvement or ongoing financial interest or responsibility in Capitol Corridor, its financial statements include only amounts related to the services it provides to Capitol Corridor.

Technology Reinvestment Project

In 1994, The District and the joint venture of Hughes Transportation Control Systems, Inc. (Hughes), and Morrison Knudsen Train Control, Inc. (HMK) entered into a memorandum of understanding (MOU) to form an alliance (Alliance) to develop a cost-effective, highly reliable and safe train control system for passenger and freight-carrying trains. The project is more commonly known as the Advanced Automatic Train Control (AATC) project. During fiscal year 1998, the Alliance was reorganized. Hughes and HMK withdrew and were replaced by Harmon Industries, Inc. (Harmon). In August 1998, a MOU was executed between the District and Harmon which replaced the 1994 MOU between the District and the joint venture of Hughes and HMK. In 2000, Harmon was purchased by GE Transportation Systems, and Harmon became known as GE Transportation Systems, Global Signaling.

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

Phase 1 was completed in 1996, while work on Phase 2 and Phase 3 is still in progress. Phase 1 and Phase 2 were partially funded by the Technology Reinvestment Project managed by the Advanced Research Projects Agency (ARPA). The Alliance handled the disbursements for project costs paid out of the ARPA grant. The District's participation in Phase 1 and Phase 2 include in-kind contributions, which consisted primarily of cost of vehicles and infrastructure use and labor and other direct costs, totaling \$25,848,000, of which \$948,000 was reimbursed by the Alliance. Additional funding for Phase 2 and Phase 3 came from the federal allocations of \$66,844,000, State grants of \$4,728,000, local agency contributions of \$2,389,000 and the District's own funds of \$36,859,000. The total project expenditures through June 30, 2007 for Phase 2 and Phase 3 amount to \$81,674,000 (\$79,365,000 in 2006).

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East Bay Paratransit Consortium

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

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17. Commitments and Contingencies

Litigation

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

Lease Commitments

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

Future minimum rental payments under noncancelable operating leases with initial or remaining lease terms of over one year at June 30, 2007 are as follows (dollar amounts in thousands):

<u>Year ending June 30:</u>	<u>Operating Leases</u>
2008	\$ 11,099
2009	11,018
2010	10,900
2011	10,756
2012	10,581
2013 - 2017	28,622
2018 - 2022	12,743
2023 - 2027	12,500
2028 - 2032	12,500
2033 - 2037	12,500
2038 - 2042	12,500
2043 - 2047	12,500
2048 - 2051	9,792
Total minimum payments	<u>\$ 168,011</u>

Rent expenses under all operating leases were \$10,775,000 and \$10,504,000 for the years ended June 30, 2007 and 2006, respectively.

Fruitvale Development Corp.

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

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

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The District provided FDC a Rent Credit with an initial amount of \$7,247,000, to acknowledge its assistance in obtaining grants for the construction of a Replacement BART Commuter Parking Garage near the Fruitvale Transit Village. The Rent Credit earns interest on the outstanding balance at simple interest based on the prime rate and can only be applied to satisfy the Base Rent. Based on the agreement, FDC shall not be under any obligation to make any cash payment to the District for Base Rent at any time that Rent Credit still has a positive balance. Changes in the Rent Credit for fiscal years 2007 and 2006 are summarized as follows (dollar amounts in thousands):

	<u>2007</u>	<u>2006</u>
Rent Credit at beginning of year	\$ 7,998	\$ 7,590
Annual base rent applied against the credit	(98)	(98)
Interest credit during the year	<u>569</u>	<u>506</u>
Rent Credit at end of year	<u>\$ 8,469</u>	<u>\$ 7,998</u>

Sale/Leaseback and Lease/Leaseback Obligations

The District has entered into two leaseback obligations relating to rail traffic control equipment and rail cars.

On March 30, 1995, the District entered into an agreement with a Swedish corporation to sell 25 newly manufactured C-2 rail cars for \$50,383,000 and simultaneously entered into an agreement to lease them back. The lease agreement was effective on the closing date of September 15, 1995 and continues through January 15, 2011. The District recorded a gain on the sale of approximately \$2,015,000, which is equal to the amount of cash received on the sale.

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

On May 17, 2006, President Bush signed into law an act entitled the "Tax Increase Prevention and Reconciliation Act of 2005" (the "Tax Act"). Among other provisions, the Tax Act imposes an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions (including the District). The District currently is evaluating this legislation. At this time, it is unclear to what extent the excise tax imposed by the Tax Act is applicable to the District lease transactions and, if so, the magnitude of the District's excise tax liability, if any, with respect to the District lease transactions.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
Notes to Financial Statements
June 30, 2007 and 2006

18. Subsequent Event

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 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. 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. Interest on the 2007 GO Bonds, which range from 3.6% to 5.0%, is payable on February 1 and August 1 of each year, commencing on February 1, 2008, while the principal is payable on August 1 of each year, starting August 1, 2009.

Sources and Uses of Operating Funds (Unaudited)

	FY 2007		FY 2006	
	Amount (in thousands)	Percent	Amount (in thousands)	Percent
SOURCES OF OPERATING FUNDS				
Transaction & Use Sales Tax	\$ 198,805	32%	\$ 191,680	35%
Passenger Fares	282,080	45%	256,238	46%
Property Tax	27,419	4%	24,325	4%
Other:				
Investment Income & Other				
Operating Revenues	30,724	5%	23,435	4%
Construction Funds (Capitalized Costs)	32,285	5%	33,785	6%
Financial Assistance	55,546	9%	15,749	3%
Gain From Sale Of Property, Net	0	0%	11,042	2%
Total - Other	118,555	19%	84,011	15%
Total Sources Of Operating Funds	\$ 626,859	100%	\$ 556,254	100%
USES OF OPERATING FUNDS				
Maintenance	\$ 178,839	29%	\$ 168,226	30%
Transportation	142,989	23%	125,022	23%
General Administration	117,962	18%	111,532	20%
Police Services	41,442	7%	39,109	7%
Construction & Engineering	18,160	3%	17,777	3%
Other:				
Capital Designation	26,337	4%	28,166	5%
Debt Service Allocation	70,325	11%	62,719	11%
Contribution For Bart Car Replacement				
Funding Exchange Program	22,680	4%	0	0%
Increase (Decrease) In Net Assets -				
General Fund	8,125	1%	3,703	1%
Total - Other	127,467	20%	94,588	17%
Total uses of operating funds	\$ 626,859	100%	\$ 556,254	100%

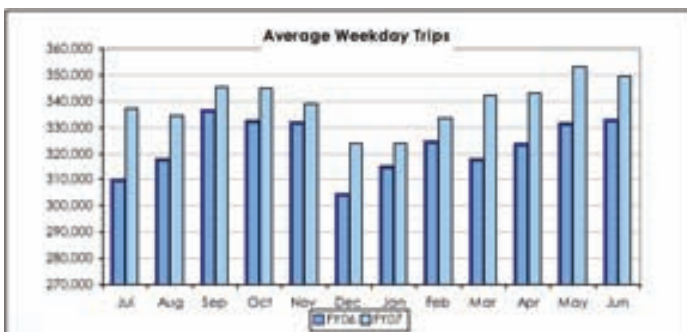
Sources and Uses of Capital Funds (Unaudited)

	FY 2007		FY 2006	
	Amount (in thousands)	Percent	Amount (in thousands)	Percent
SOURCES OF CAPITAL FUNDS				
District	\$ 69,900	48%	\$ 46,316	43%
Federal	35,647	24%	37,228	34%
State	16,564	11%	8,148	7%
Local	24,363	17%	17,111	16%
Total Sources of Capital Funds	<u>\$ 146,474</u>	<u>100%</u>	<u>\$ 108,803</u>	<u>100%</u>
CAPITAL EXPENDITURES				
Construction:				
Line	\$ 66,713	46%	\$ 43,276	40%
Systemwide	47,589	32%	35,397	33%
Support Facilities	1,929	1%	1,463	1%
Total - Construction	<u>116,231</u>	<u>79%</u>	<u>80,136</u>	<u>74%</u>
Equipment:				
Train Control	6,852	5%	7,845	7%
Transit Vehicles	4,477	3%	4,498	4%
Automatic Fare Collections	8,158	6%	6,615	6%
Management Information Systems	3,250	2%	2,788	3%
Other Equipment	6,027	4%	2,362	2%
Total - Equipment	<u>28,764</u>	<u>20%</u>	<u>24,108</u>	<u>22%</u>
Studies & Other	1,479	1%	4,559	4%
Total capital expenditures	<u>\$ 146,474</u>	<u>100%</u>	<u>\$ 108,803</u>	<u>100%</u>

Performance Highlights (Unaudited)

	2007	2006
Annual passenger trips	101,704,381	96,852,220
Average weekday trips	339,350	322,965
Average trip length	13.45	13.50
Annual passenger miles	1,368,044,840	1,307,104,673
Daily Passenger on-time performance	95.4%	94.9%
System utilization	31.7%	31.4%
End-of-period ratios ¹		
Peak patronage	57%	57%
Off-peak patronage	43%	43%
Annual revenue car miles	64,329,557	62,088,502
Passenger accidents/million passenger trips	4.92%	5.76%
Passenger crimes/million passenger trips	15.24	20.09%
Net passenger revenue	\$282,079,624	\$256,238,520
Other operating revenue	\$30,724,199	\$23,434,139
Total operating revenue	\$312,803,823	\$279,672,659
Net operating expense	\$489,785,916	\$427,880,784
System farebox ratio, net passenger revenue/net operating expense	57.6%	59.9%
System operating ratio, total operating rev/total operating expense	63.9%	65.4%
Net rail passenger revenue/passenger mile	\$0.206	\$0.196
Rail operating cost/passenger mile	33.2¢	31.8¢
Net average rail passenger fare, including FastPass	\$2.77	\$2.64

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



BART Governance

BART Board of Directors Fiscal Year 2007

Lynette Sweet President – San Francisco
 Gail Murray Vice President – Orinda

Members of the Board

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

Board Appointed Officers

Dorothy W. Dugger Interim General Manager
 Sherwood Wakeman General Counsel
 Scott Schroeder Controller/Treasurer
 Ken Duron District Secretary



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

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