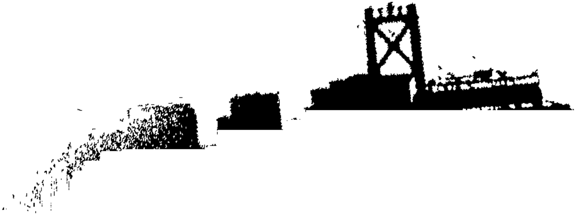
nual Report 2001 | San Francisco Bay Area Rapid Transit District



SAN FRANCISCO BAY AREA
RAPID TRANSIT DISTRICT

ANNUAL REPORT 2001

THE GENERAL MANAGER'S MESSAGE

As we move into the new millennium, BART's importance as an integral part of the region's transportation network continues to grow. It's been said the biggest concern with BART is that there is not enough of it. This past year the demand for more BART was accentuated by the growing concept that people and transit, particularly rail transit, must be put into close proximity if we are to beat the back-up on our freeways and bridges, and meet the environmental challenges in the years ahead Livable communities and transit-oriented development will be the keystones of the future. In keeping with that theme BART sponsored its second land use forum, entitled "Livable Communities: Linking Developers and Opportunities." The forum was attended by a broad spectrum of representatives from both the public and private sectors.

The demand for more transit was never underscored more dramatically than by the voters in November 2000 when they overwhelmingly approved Measure B in Alameda County and Measure A in Santa Clara County to build more BART. Clearly a major vote of confidence.

Along with its primary role as a transportation mode, BART has many key secondary roles as well. While we saw the economy begin to slow down this past year, BART continues to remain a strong economic engine in the region Employing more than 3,500 people, the transit district serves about 3,000 retail outlets on both sides of the San Francisco Bay, provides critical mobility for hundreds of thousands of people each weekday, and pours almost a billion dollars annually back into the economy The system also contributes to something dearly treasured in the Bay Area, our air quality. The Bay Area Air Quality Management District estimates that BART saves the region as mush as 56 tons of carbon monoxide added to the daily air pollution load.

On balance I'd say that BART's trek into the 21st century is on course.

"Hats off to BART employees who make it all happen day to day, week to week, month to month and year to year."

Customer Service

Coupled with BART's burgeoning role as a major transportation provider is our continued focus on the reason we are all here in the first place – to serve the customer. We paid close attention to thousands of customer letters and e-mail, held focus groups, conducted interface testing, and implemented enhanced services for our customers. These include more and longer trains, new electronic signs in the stations that indicate when the next train is coming and where it's going, cleaner stations, more information through public address announcements, bulletins, added personnel in BART Police, Maintenance, and Human Resources, and numerous other customer focus enhancements. As a result, 78 percent of the passengers surveyed this past year in our biennial "Customer Satisfaction Study" said that they were "satisfied" or "very satisfied" with BART service, an increase over our 1998 survey which was 74 percent.

While seemingly not a dramatic change it's indicative of the direction we're heading. And that's good news Our goal of course is to continue our investment in service and issues customers identify as important.

Enhanced Website

Additionally, our website was retooled to provide easier access to the information most in demand and offers an improved search function. More detailed Trip Planning was also added, plus the ability to download the entire BART train schedule into hand-held computers.

Ridership

The ridership story has been a phenomenal one, to say the least. During the previous year we experienced the equivalent of more than four years of normal growth. We saw annual ridership grow from 91 million in fiscal year 2000 to 97.3 million in fiscal year 2001, almost a seven percent increase. Our primary target for growth has been the off-peak market where we have provided extra service for major sporting events, parades and other discretionary travel destinations. The off-peak and evening markets offer the best opportunity for achieving an economy of scale at marginal cost.

Renovation Program Progresses

By the end of the fiscal year, more than 65 percent of the 10-year, $1.5 billion renovation program was completed with 100 percent of the remaining contracts in the pipeline. While elevators and escalators continue to be rebuilt and come back on line, a major effort has been preparing for installation of new Automatic Fare Collection equipment, including new entry/exit gates. Additonally, BART has received and accepted over 300 of its original fleet of transit cars being overhauled under the system-wide renovation program.

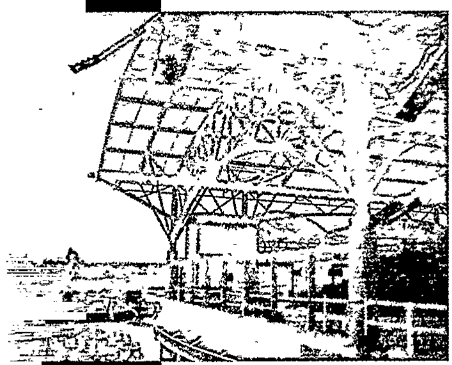
Capitol Corridor Trains

The Capitol Corridor Trains, which BART manages under the Capitol Corridor Joint Powers Board, had another record breaking year in both ridership and increased service. Ridership was over 1,000,000 for the fiscal year and two more trains were added to bring the total number of daily trains to 18. The additional trains added service in both Placer County, and between Oakland and San Jose. Revenue also showed a healthy increase over the previous year's revenue, resulting in the fare box recovery growing from 35.7 percent the previous year to 41 percent. Overall the Capitol Corridor is considered one of the most successful Amtrak services in the nation.

More BART

San Jose Framework

Speaking of more BART, the board of directors last spring adopted a "Framework for Negotiations" with Santa Clara Valley Transportation Authority (VTA) to bring about an agreement to extend the BART line to San Jose. The framework guided



"I believe that without question, BART to San Jose is an idea whose time has come."

the negotiations from BART's perspective. The primary goal in ultimately reaching an agreement was to ensure that the core system would not be adversely impacted and that the highest quality of service for both current and future riders, including Santa Clara riders, would be maintained. After some 40 years of debate and regional wrangling I believe that without question BART to San Jose is an idea whose time has come.

San Francisco Airport

By the end of the fiscal year over 80 percent of the basic civil work on the $1.5 billion 8.7-mile extension to San Francisco International Airport was complete.

Five miles of track have been laid or about 60 percent of the total requirement, and critical systems work was well underway. The Airport Station is 97 percent complete, the Millbrae Station 94 percent, the San Bruno Station 60 percent and the South San Francisco Station, which was the last station to get started, is 51 percent complete.

When this new line opens, scheduled for the fall of 2002, it will be one of the most heavily used lines on the entire system. It will serve the Bay Area well as Pacific Rim markets grow and the San Francisco Airport grows as an international hub.

Oakland Airport

With passage of Measure B by an overwhelming majority of Alameda County voters, new impetus was given to building a long-planned connector between BART's Coliseum Station and the growing Oakland International Airport. The connector would serve a three-mile-long corridor, possibly with two stations in between, and act as a catalyst for development along the way. As a separate but integrated concept the plan also calls for a Capitol Corridor station with easy access to BART and the Connector. BART is in partnership with the Port of Oakland and the City of Oakland on this endeavor.

Warm Springs

Another long-planned project has been to extend BART from its Fremont terminus 5.6 miles south to Warm Springs. This extension would serve as the vital link between BART and a San Jose Extension and provide new mobility for what has become one of the most congested corridors in the Bay Area.

East Bay

Meanwhile BART, in conjunction with the Congestion Management Agencies of Alameda and Contra Costa Counties, is conducting important corridor studies to determine the feasibility of extending BART or some other form of transit to the outlying areas of those counties: Livermore in Alameda County, and Antioch and Brentwood in Contra Costa County. These studies are expected to be completed in 2002. During last year, BART presented two possible interim approaches to serving those two areas, e-BART, calling for the use of lightweight diesel-driven trains on existing tracks in eastern Contra Costa County, and t-BART, also using diesel trains to serve Livermore.

Meeting the Transportation Needs of the Bay Area

We are now entering BART's 30th year of service to the people of the Bay Area and a new fiscal year which will bring new challenges. We will continue to follow our Strategic Plan, which is the long-range blueprint for progress, adopted by the BART Board in 1999. In the meantime, hats off to BART employees who make it all happen day to day, week to week, month to month and year to year. Since first opening for service, the system's trains have safely carried over one billion passengers more than 20 billion passenger miles. I believe the BART family can all take pride in that accomplishment.

PRICEWATERHOUSECOOPERS

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Report of Independent Accountants

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

In our opinion, the accompanying balance sheets and the related statements of revenues and expenses, statements of changes in fund equity, and statements of cash flows present fairly, in all material respects, the financial position of San Francisco Bay Area Rapid Transit District (the "District") at June 30, 2001 and 2000, and the results of its operations, changes in fund equity and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the District changed its method of accounting for capital grants effective July 1, 2000 as required by the Government Accounting Standards Board Statement No. 33.

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2001, 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

October 29, 2001

BALANCE SHEET (IN THOUSANDS) • JUNE 30, 2001 & 2000

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 418,280	$ 308,023
Investments	-	6,659
Total cash, cash equivalents and investments (including restricted cash and investments of $20,445 in 2001 and $18,833 in 2000)	418,280	314,682
Deposits held by trustee - restricted	311,589	121,382
Capital grants receivable - restricted	129,095	118,588
Other receivables	19,204	22,303
Materials and supplies	23,691	23,865
Total current assets	901,859	600,820
Restricted and designated investments:		
Investments for capital, debt and other purposes	129,692	371,740
Board designated investments	10,955	11,179
Capital grants receivable - restricted	215,485	152,445
Facilities, property and equipment, net	4,383,115	3,982,835
Other receivables	30,938	29,967
Total assets	$ 5,672,044	$ 5,148,986
Liabilities and Fund Equity		
Current liabilities.		
Current portion of long-term debt	$ 81,740	$ 20,385
Accounts payable and other liabilities	131,785	109,569
Current portion of self-insurance liabilities	9,466	8,778
Deferred revenue	6,631	5,843
Current portion of capital lease liability	3,154	3,154
Total current liabilities	232,776	147,729
Contracts payable - restricted assets	59,706	54,071
Self-insurance liabilities	18,644	21,508
Commercial paper notes payable	-	300,000
Long-term debt, net	1,199,377	774,805
Long-term portion of deferred revenue	13,812	9,907
Long-term portion of capital lease liability	26,813	29,967
Total liabilities	1,551,128	1,337,987
Commitments and contingencies (Note 13)		
Fund equity.		
Contributed capital	2,671,802	2,708,567
Reserved retained earnings - capital grants	278,140	-
Retained earnings	1,170,974	1,102,432
Total fund equity	4,120,916	3,810,999
Total liabilities and fund equity	$ 5,672,044	$ 5,148,986

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

Statements of Revenues & Expenses (In Thousands)
For the years ended June 30, 2001 & 2000

	2001	2000
Operating revenues:		
Fares	$ 213,260	$ 194,291
Other (including investment income and net change in fair value of investments)	25,182	17,988
Total operating revenues	238,442	212,279
Operating expenses:		
Transportation	100,406	92,640
Maintenance	135,353	128,499
Police services	25,007	22,880
Construction and engineering	15,476	15,535
General and administrative	90,283	84,987
Depreciation	79,956	73,606
Total operating expenses	446,481	418,147
Less capitalized costs	(32,441)	(29,741)
Net operating expenses	414,040	388,406
Operating loss	(175,598)	(176,127)
Nonoperating income (expense):		
Transactions and use tax (sales tax)	191,648	170,911
Property tax	17,260	19,364
Local financial assistance	529	723
Other investment income	31,318	34,477
Interest expense	(32,471)	(33,269)
Other expense, net	(909)	(885)
Total nonoperating income, net	207,375	191,321
Net income before restricted nonoperating income	31,777	15,194
Restricted nonoperating income:		
Grants restricted for capital expenditures (Note 1)	278,140	-
Net income	$ 309,917	$ 15,194

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

STATEMENTS OF CHANGES IN FUND EQUITY (IN THOUSANDS)
FOR THE YEARS ENDED JUNE 30, 2001 & 2000

	Contributed Capital	Reserved Retained Earnings	Retained Earnings	Total Fund Equity
Balances, June 30, 1999	$ 2,365,542	$ -	$ 1,053,975	$ 3,419,517
Net income	-	-	15,194	15,194
Other additions (deductions):				
Contributed capital	376,288	-	-	376,288
Depreciation of assets acquired with contributed capital	(33,263)	-	33,263	-
Balances, June 30, 2000	2,708,567	-	1,102,432	3,810,999
Net income	-	278,140	31,777	309,917
Other additions (deductions):				
Depreciation of assets acquired with contributed capital	(36,765)	-	36,765	-
Balances, June 30, 2001	$ 2,671,802	$ 278,140	$ 1,170,974	$ 4,120,916

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

STATEMENTS OF CASH FLOWS (IN THOUSANDS)
FOR THE YEARS ENDED JUNE 30, 2001 & 2000

	2001	2000
Cash flows from operating activities:		
Operating loss	$ (175,598)	$ (176,127)
Less investment income included in operating revenue	(11,805)	(8,512)
Operating loss excluding investment income	(187,403)	(184,639)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	79,956	73,606
Amortization of deferred charges	375	2,485
Net effect of changes in:		
Receivables	(1,401)	(9,976)
Materials and supplies	174	1,651
Accounts payable and other liabilities	24,466	2,635
Self-insurance liabilities	(2,176)	1,279
Deferred revenue	4,693	9,138
Net cash used in operating activities	(81,316)	(103,821)
Cash flows from noncapital financing activities:		
Transactions and use tax received	143,516	124,668
Property tax received	17,011	15,479
Financial assistance received	529	723
Net cash provided by noncapital financing activities	161,056	140,870
Cash flows from capital and related financing activities:		
Transactions and use tax received	48,132	46,243
Property tax received	249	3,885
Interest paid on debt	(37,484)	(36,413)
Capital grants received	204,593	255,845
Principal paid on long-term debt	(20,385)	(13,335)
Proceeds from issuance of FTA Capital Grant Bonds	485,350	-
Premium received from issuance of long-term debt	15,871	-
Proceeds from issuance of commercial paper notes	-	200,000
Payment of commercial paper notes	(300,000)	-
Proceeds from issuance of sales tax revenue bonds	-	134,945
Proceeds from issuance of TFA Bridge Toll notes	-	65,680
Proceeds from construction loans	7,137	86,699
Issuance costs for long-term debt	(6,231)	(5,791)
Expenditures for facilities, property and equipment	(468,295)	(461,642)
Other, net	(268)	(15)
Net cash provided (used) by capital and related financing activities	(71,331)	276,101
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	1,225,650	986,850
Purchase of investments	(1,166,925)	(1,086,331)
Interest on investments	43,123	42,989
Net cash provided/(used) in investing activities	101,848	(56,492)
Net increase in cash and cash equivalents	110,257	256,658
Cash and cash equivalents, beginning of year	308,023	51,365
Cash and cash equivalents, end of year	$ 418,280	$ 308,023

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

1. Description of Reporting Entity and Significant Accounting Policies

Description of reporting entity

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

The District has defined its financial reporting entity in accordance with Government Accounting Standards No. 14, 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, the financial statements of the District (the primary government) include those of the Transit Financing Authority (the Authority), a component unit.

Basis of accounting and presentation

The accrual basis of accounting is used by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The financial statements of the District are presented as an enterprise fund and are accounted for in separate funds, principally the Operating Fund, Construction Fund and Debt Service Fund. Such funds are combined for financial reporting purposes in order to present the financial position and results of operations of the District as a whole.

Government Accounting Standards Board (GASB) Statement No. 33

As required by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, effective July 1, 2000 the District changed its method of accounting for capital grants from capital contributions to reserved nonoperating revenues. In accordance with GASB No.33, capital grants are required to be included in the determination of net income resulting in an increase in net revenue of $278,140,000 for the year ended June 30, 2001. For the year ended June 30, 2000, the change in accounting principle would have resulted in the recognition of restricted nonoperating revenues of $376,288,000 and equity reclassification from contributed capital to reserved retained earnings of the same amount.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation. This primarily relates to the statement of cash flows and involves a reclassification of capital grants between operating and financing activities.

Cash and cash equivalents

The District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash deposits held by trustee and investments restricted for Board designated purposes are treated as investments.

Investments

Investments are stated at fair value, which is based on quoted market price. As a matter of policy, the District holds investments until their maturity.

Deposits held by trustee

Deposits held by trustee, consisting of cash and investments, are held by trustee banks in accordance with the District's various bond and note indentures and for general debt service requirements.

Restricted and designated cash and investments

Certain cash and investments are classified as restricted and designated assets on the balance sheets because their use is limited, either by certain bond covenants or by the Board of Directors' designations. The use of these funds is restricted for construction or for debt service payments.

Materials and supplies

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

Facilities, property and equipment

Facilities, property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation expense on assets acquired with capital grant funds which are included in contributed capital is transferred to contributed capital after being charged to operations.

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

The District capitalizes certain interest income and expense related to tax-free borrowings. Following the capitalization of interest revenue of $10,611,000 and $15,605,000 for fiscal years 2001 and 2000, respectively, the net effect of interest capitalization was increase expenditures for facilities, property and equipment by $6,307,000 and $5,210,000 during the years ended June 30, 2001 and 2000, respectively, for the difference between interest income and interest expense from applicable borrowings. Total interest costs amounted to $16,918,000 and $20,815,000 for fiscal years 2001 and 2000, respectively.

Compensated absences

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

Fare operating revenue

Fare operating revenues are earned as passengers utilize the train service. Deferred revenue includes unearned passenger revenue which is an estimate of passenger tickets purchased which have not yet been used as well as unearned revenue related to license fees paid by telecommunication companies for the use of the District's right of way for wireless accessibility to their customers.

Contributed capital

The District receives grants from the Federal Transit Administration ("FTA") and other agencies of the U.S Department of Transportation, state, and local transportation funds for the acquisition of transit-related equipment and improvements. Capital grants are recognized as donated capital to the extent that project costs under the grant have been incurred. As required by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, effective July 1, 2000 the District changed its method of accounting for capital grants from capital contributions to restricted non-operating revenues. For the year ended June 30, 2000, capital grant funds earned, less amortization equal to accumulated depreciation of the related assets, are included in contributed capital.

Transactions and use tax (sales tax) revenue

The State of California legislation authorizes the District to impose a 1/2% transaction and use tax within District boundaries which is collected and administered by the State Board of Equalization. Of amounts available for distribution, 75% is paid directly to the District for the purpose of paying operating expenses, except for a portion which is paid directly to the trustees to cover principal and interest payments of maturing sales tax revenue bonds.The remaining 25% is allocated by the Metropolitan Transportation Commission ("MTC") to the District, the City and County of San Francisco, and the Alameda-Contra Costa Transit District for transit services. The District records the total transactions and use taxes earned (including amounts paid to the trustee) as revenue

Property taxes, collection and maximum rates

The State of California Constitution Article XIII.A provides that the general purpose maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts, such as the District.

The District receives an allocation of property tax revenues for transit operations. San Francisco, Alameda and Contra Costa Counties assess properties and bill for, collect, and distribute property taxes Property taxes are recorded as revenue in the fiscal year of levy.

Financial assistance grants

Financial assistance grants are accrued as other revenue in the period to which the grant applies.

Collective bargaining

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In June 1999, GASB issued Statement No. 34, Basic Financial Statements - Management's Discussion & Analysis - for State and Local Governments GASB Statement No. 34 is effective for the fiscal year beginning after June 15, 2001. GASB Statement No. 34 establishes new financial reporting requirements for state and local governments in order to make annual reports more comprehensive and easier to understand and use. GASB Statement No. 34 establishes that basic financial statements and required supplementary information should consist of Management's discussion and analysis (MD&A), basic financial statements with notes essential to the user's understanding of the basic financial statements and required supplementary information other than MD&A. In particular, capital assets, including infrastructure assets, should be reported in the statement of net assets. The District is in the process of evaluating the impact of this pronouncement on its financial statements.

In June 2001, FASB issued Statement No. 143, Accounting for Asset Retirement Obligations. FASB Statement No. 143 is effective for the fiscal years beginning after June 15, 2002. FASB Statement No 143, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. FASB Statement No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made.The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The impact of this pronouncement on the District's financial statements has yet to be determined.

In August 2001, FASB issued statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. FASB Statement No. 144 is effective for the fiscal years beginning after December 15, 2001. This statement supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business FASB Statement No 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under APB Opinion No 30, accordingly two accounting models existed for long-lived assets to be disposed of FASB Statement No 144, establishes a single accounting model, based on the framework established in Statement No. 121, for long-lived assets to be disposed of by sale. In addition, FASB Statement No. 144 resolves significant implementation issues related to Statement No. 121. The impact of this pronouncement on the District's financial statements has yet to be determined.

2. Cash and Investments

The District maintains a cash and investment pool that includes cash and investments available for general use and restricted for Board-designated purposes.

Deposits

The carrying amount of the District's deposits with banks and cash on hand was $46,774,000 and $77,804,000 at June 30, 2001 and 2000, respectively. The corresponding bank balance was $56,078,000 and $84,145,000 at June 30, 2001 and 2000, respectively. Of the bank balance, $1,000,000 and $900,000 for 2001 and 2000, respectively, was insured by federal depository insurance or collateralized by securities held by the District's agent in the District's name, and $55,175,000 (2000, $83,245,000) is required by Section 53652 of the California Government Code to be collateralized 110% by the pledging financial institutions. Such collateral is not required to be in the District's name.

Investments

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

The District's investments are categorized below to give an indication of the credit risk assumed by the District at June 30, 2001 and 2000. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. The District's investment pools are reported at fair value.

	(in thousands)					
	2001			2000		
	Category		Fair Value	Category		Fair Value
	1	2		1	2	
Money market	$ -	$ 19,427	$ 19,427	$ -	$ -	$ -
U.S. Treasury bills	-	-	-	-	-	-
U.S. Treasury funds	-	32,534	32,534	-	44,924	44,924
Federal agency obligations	303,247	153,505	457,532	422,136	-	421,807
Repurchase agreements	188,756	106,060	294,816	182,602	76,458	259,060
Total	$ 492,003	$ 311,526	804,309	$ 604,738	$ 121,382	725,791
Cash on hand			2,248			1,412
Time and demand deposits			48,959			76,780
Investment in California local agency investment fund			15,000			15,000
Total			$ 870,516			$ 818,983
Reported as:						
Cash and cash equivalents			$ 418,280			$ 308,023
Investments - current			-			6,659
Deposits held by trustee-restricted			311,589			121,382
Investments restricted for capital, debt and other purposes			129,692			371,740
Investments restricted for Board designated purposes			10,955			11,179
Total			$ 870,516			$ 818,983

The Board of Directors of the District have designated the following amounts, consisting of investments, as a reserve of fund equity for the following purposes (in thousands):

	2001	2000
Basic system completion	$ 561	$ 606
System improvement	1,394	1,573
Self-insurance	9,000	9,000
Total	$ 10,955	$ 11,179

3. Facilities, Property and Equipment

Facilities, property and equipment at June 30, 2001 and 2000 are summarized as follows (in thousands):

	Lives (Years)	2001	2000
Land		$ 243,478	$ 242,186
Improvements	80	1,909,760	1,881,141
System-wide operation and control	20	397,292	391,022
Revenue transit vehicles	30	834,735	681,131
Service and miscellaneous equipment	3-20	53,390	54,373
Capitalized construction and start-up costs	30	98,342	98,342
Repairable property items	30	23,473	23,571
Capital leases	30	53,366	53,366
		3,613,836	3,425,132
Less accumulated depreciation and amortization		(1,089,675)	(1,017,240)
		2,524,161	2,407,892
Construction-in-progress		1,858,954	1,574,943
Total		$ 4,383,115	$ 3,982,835

The District is currently involved in construction of Phase 1 of an extension project that will add 38 miles of track and 10 new stations to the system at a total cost of approximately $3,264,000,000. The Dublin/Pleasanton, Pittsburg/Bay Point and Colma station extensions are open and in revenue service. Completion of the San Francisco Airport extension is anticipated by Fall 2002. The funding for Phase 1 comes from the federal government ($877,000,000), State of California ($769,000,000), San Mateo County ($503,000,000), Alameda and Contra Costa Counties ($471,000,000), bridge tolls ($155,000,000), San Francisco International Airport ($200,000,000), and the District ($289,000,000).

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $843,523,000 at June 30, 2001.

4. Risk Management

The District is partially self-insured for workers' compensation, public liability and property damage claims. The self-insured maximum for workers' compensation is $500,000 for any one accident.The self-insured maximum for public liability and property damage is $2,000,000 for any one occurrence. Claims in excess of self-insured retentions are covered up to a total of $248,000,000 by insurance policies.

The self-insurance programs are administered by independent claims adjustment firms. Liabilities are based, in part, upon the independent adjustment firms' estimate of reserves necessary for the settlement of outstanding claims and related administrative costs, and includes estimates of claims that have been incurred but not yet reported. Such reserves are reviewed by professional actuaries and are subject to periodic adjustments as conditions warrant.

The estimated liability for insurance claims at June 30, 2001 is believed to be sufficient to cover any costs arising out of claims filed or to be filed for accidents which occurred through that date.

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. These losses include an estimate of claims that have been incurred but not yet reported.

At June 30, 2001 and 2000, the amount of these liabilities was $28,110,000 and $30,286,000, respectively. Changes in the reported liability since the beginning of the respective fiscal year are as follows (in thousands):

	2001	2000
Liability at beginning of year	$ 30,286	$ 29,007
Current year claims and changes in estimates	6,364	7,808
Payments of claims	(8,540)	(6,529)
Liability at end of year	$ 28,110	$ 30,286

5. Joint Exercise of Powers Agreements

Transit Financing Authority

The Joint Exercise of Powers Agreement (the "Agreement"), dated August 1, 1991, between the District and Metropolitan Transportation Commission (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 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 and 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.

The Authority had undertaken a commercial paper program to fund a portion of the costs of acquiring and constructing the District's extension project to the San Francisco International Airport (SFO extension project). Under the program, the Authority issued in December 1998, Commercial Paper Notes Series A and Series B, in October 1999, Series C and Series D, and in March 2000, Series E and Series F, with an aggregate principal amount of $300,000,000. In April 2001, notes with a total principal amount of $30,200,000 were retired. In June 2001, the remaining notes with a total principal amount of $269,800,000 were also retired The monies used to fully pay and retire all the Commercial Paper Notes came from a portion of the proceeds of the FTA Capital Grant Bonds issued by the Association of Bay Area Governments for the sole benefit of the District's San Francisco Airport Extension Project. (See note number 6 – FTA Capital Grant Bonds). As of June 30, 2001, there are no Commercial Paper Notes outstanding ($300,000,000 in 2000).

During the period when the notes were outstanding, to provide liquidity for the program, the District maintained three lines of credit facilities with commercial banks totaling $309,000,000. Drawing under the agreements was restricted to payment of maturing commercial paper notes and related interest. At June 30, 2001, the lines of credits were closed when the Commercial Paper Notes were fully paid and retired.

Also in order to fund a portion of the costs of SFO extension project, in September 1999 the Authority issued a limited liability note (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, 2001, the notes outstanding amount to $60,345,000 with interest rates ranging from 4.50% to 5.75% and mature from August 2001 through February 2007.

Capitol Corridor Joint Powers Authority

The Joint Exercise of Powers Agreement (the "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 (the "Authority"), a public instrumentality of the State of California The Authority 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 the Authority and in that capacity shall provide all necessary administrative support to the Authority. The Authority entered into an Interagency Agreement with the State of California and assumed the administration and operation commencing at the service on July 1, 1998. The initial term of the Interagency Agreement was for three years, from July 1, 1998 and was recently extended for three more years effective July 1, 2001, unless extended or terminated.

The governing board of the Authority 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 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 six participants, and any surplus money on hand shall be returned to these participants in proportion to their respective contributions to the Authority.

The District has not contributed any assets to or invested in the Authority.

Technology Reinvestment Project

In 1994, the District and the joint venture of Hughes Transportation Control Systems, Inc. ("Hughes"), and Morrison Knudsen Train Control, Inc ("HMK") entered into a memorandum of understanding ("MOU") to form an alliance ("Alliance") to develop a cost-effective, highly reliable and safe train control system for passenger and freight-carrying trains.The project is partially funded under the Technology Reinvestment Project managed by the Advanced Research Projects Agency ("ARPA"). The Federal Transit Administration ("FTA") has agreed to manage and oversee the project on behalf of ARPA.

During fiscal year 1998, the Alliance was reorganized. Hughes and HMK withdrew and were replaced by Harmon Industries, Inc. ("Harmon"). In August 1998, a MOU was executed between the District and Harmon which replaced the 1994 MOU between the District and the joint venture of Hughes and HMK.

The District's participation in this project was in the form of in-kind contributions which consist primarily of labor costs and direct costs that are partially reimbursable by the Alliance. As of June 30, 2001 and 2000, the District had provided the Alliance with approximately \$12,758,000 in cumulative in-kind contributions and had incurred \$20,000,000 and \$17,915,000 of direct costs, respectively, \$948,000 of which were reimbursed by the Alliance.

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 administer ADA paratransit services in the overlapping service area of the District and AC Transit The Consortium receives operating subsidies of State Transit Assistance funds administered by the MTC. The project receives direction from the Service Review Committee, which consists of the general manager (or designee) from each member agency. The lead agency responsible for administering the Consortium is rotated annually as established by the Agreement. AC Transit was the lead agency in fiscal year 2001

There was no financial assistance received from MTC in fiscal years 2001 and 2000.

6. Long-Term Debt

Long-term debt at June 30, 2001 and 2000 is summarized as follows (in thousands):

	2001	2000
1990 Sales Tax Revenue Refunding Bonds	$ 63,326	$ 69,905
1991 Sales Tax Revenue Bonds	7,410	9,500
1995 Sales Tax Revenue Bonds	95,990	99,345
1998 Sales Tax Revenue Bonds	347,690	348,510
1999 Sales Tax Revenue Bonds	134,945	134,945
TFA Bridge Toll Notes	60,345	65,680
Construction Loans	93,835	86,699
FTA Capital Grant Bonds	485,350	-
	1,288,891	814,584
Add/(Deduct):		
Unamortized bond premium	15,391	-
Unamortized bond discount and issuance costs	(22,326)	(17,218)
Deferred charges on insubstance defeasance	(839)	(2,176)
Current portion	(81,740)	(20,385)
Long-term portion of bonds, toll notes and construction loans	1,199,377	774,805
Commercial paper notes payable	-	300,000
Net long-term portion of debt	$ 1,199,377	$ 1,074,805

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

1990 Sales Tax Revenue Refunding Bonds (the 1990 Bonds)
In July 1990, the District issued sales tax refunding bonds totaling $158,478,000. The 1990 Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. At June 30, 2001, the 1990 Bonds consist of $28,775,000 of current interest serial bonds due from 2010 to 2011 with interest rate of 6.75% and $34,551,000 of capital appreciation serial bonds ($16,828,000 original amount) with yields of 6.65% to 6.75% due from 2001 to 2004. Interest on the capital appreciation bonds is payable at maturity. For financial reporting purposes, accrued interest is added to the principal balance.

1991 Sales Tax Revenue Bonds (the 1991 Bonds)
The 1991 Bonds were issued in August 1991 in the amount of $56,010,000 and are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2001, the 1991 Bonds consist of $4,735,000 of serial bonds due from 2001 to 2002 with interest rates ranging from 6.2% to 6 3% and of $2,675,000 of term bonds due in 2003 with an interest rate of 6.4%. Additionally, the 1991 Bonds maturing after June 30, 2001 are redeemable, at the option of the District, at prices ranging from 100% to 102%.

1995 Sales Tax Revenue Bonds (the 1995 Bonds)
In June 1995, the District issued sales tax revenue bonds totaling $135,000,000 to provide funds for certain capital improvements including rehabilitation of District vehicles and facilities and energy conservation measures. The bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2001, the 1995 Bonds consist of $45,715,000 serial bonds due from 2001 to 2011 with interest rates ranging from 4.8% to 5.7% and $50,275,000 of term bonds due from 2012 to 2020 with an interest rate of 5.5%. The District is required to make sinking fund payments on the term bonds beginning on July 1, 2012. In addition, the 1995 Bonds maturing after June 30, 2006 will be redeemable after July 1, 2005 at the option of the District at prices ranging from 100% to 101%.

1998 Sales Tax Revenue Bonds (the 1998 Bonds)
In March 1998, the District issued sales tax revenue bonds totaling $348,510,000 to provide funds for certain capital improvements, including rehabilitation of the District's vehicles and facilities, to repay obligation of approximately $49,645,000 related to a lease of certain telecommunications equipment, and to refund certain outstanding bonds with principal amounts of $155,115,000 to achieve debt service savings. The bonds are special obligations of the District payable from and collateralized by a pledge of sales tax revenues. At June 30, 2001, the 1998 Bonds consist of $155,320,000 serial bonds due from 2001 to 2018 with interest rates ranging from 3.75% to 5.50% and $79,105,000 of the term bond due July 1, 2023 with interest rate of 4.75% and $113,265,000 of term bond due July 1, 2028 with interest rate of 5%.The District is required to make sinking fund payments on the term bond due July 1, 2023 beginning on July 1, 2019 and on the term bond due July 1, 2028 beginning on July 1, 2024. In addition, the 1998 bonds maturing after June 30, 2009 may be redeemed prior to their respective maturities after June 30, 2008 and at the option of the District at prices ranging from 100% to 101%.

1999 Sales Tax Revenue Bonds (the 1999 Bonds)
In October 1999, the District issued sales tax revenue bonds totaling $134,945,000 to provide funds for certain capital improvements including rehabilitation of the District's vehicles, initial deposit to a capital reserve account for the SFO extension project and rehabilitation of the District's maintenance facility. The bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2001, the 1999 Bonds consist of $44,930,000 serial bonds due from 2003 to 2019 with interest rates ranging from 4.15% to 5.25% and three 5.5% term bonds in the amounts of $33,210,000, $18,515,000 and $38,290,000 due in 2026, 2029 and 2034, respectively. The District is required to make sinking fund payments on the term bond due July 1, 2026 beginning on July 1, 2020 and on the term bond due July 1, 2029 beginning on July 1, 2027 and on the term bond due July 1, 2034 beginning on July 1, 2030. In addition, the 1999 bonds maturing on or after July 1, 2010 may be redeemed prior to their respective maturities on or after July 1, 2009 and at the option of the District at prices ranging from 100% to 101%.

Construction Loans
In March 1999, the District, MTC and San Mateo County Transit District (SamTrans) entered into a Memorandum of Understanding (MOU), which provided additional funds to the extension project at the San Francisco International Airport.

Pursuant to the MOU, the construction loans as of June 30, 2001, consist of funds received for the SFO Extension project costs from SamTrans for $72,000,000 and MTC for $16,500,000 and $5,335,000 from MTC for the SFO Extension Project's temporary cash requirements. The District has committed to loan $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 loan for project costs will be repaid, without interest, from the future net operating surplus generated by the San Francisco International Airport Extension. Such repayments will commence after SamTrans' capital contribution to the BART system for the Warm Springs extension is fully paid from future net operating surplus. MTC's loan for the project's temporary cash requirements will be repaid from the last federal grant allocations to the SFO Extension Project as covered by a Federal Full Funding Grant Agreement.

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 San Francisco Airport Extension project (SFO extension). The proceeds were used mainly to provide additional financing for the SFO extension and to refund and defease $300,000,000 aggregate principal amount of the San Francisco Bay Area Transit Financing Authority Commercial Paper Notes, Series A, B, C, D, E and F. (See note number 5 – Transit Financing Authority). The bonds are limited obligations of ABAG and are payable from the monies coming from the Federal Full Funding Grant Agreement between the United States Department of Transportation, Federal Transit Administration and the District for the District's SFO extension project. The District's obligation to make bond payments is not a general obligation of the District. Payment of the principal and interest on the bonds when due are insured by a financial guaranty insurance policy issued by an insurance company. At June 30, 2001, the bonds outstanding amount to $485,350,000, with interest rates ranging from 3.3% to 5.0% with maturities from June 15, 2002 to June 15, 2009.

Defeased Bonds

No bonds were defeased during fiscal years 2001 and 2000. In March 1998, the District defeased several bonds amounting to $155,115,000 by placing part of the proceeds of the 1998 Sales Tax Revenue Bonds in an irrevocable trust to provide for future debt service payments on these bonds. The advance refunding met the requirement of an insubstance debt defeasance, and the term bonds were removed from the District's long-term debt. Accordingly, the Trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the advance refunding, the District reduced its total debt service requirement by $16,644,000 which resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of $10,721,000.

The District deferred interest expenses of $7,767,000 related to the defeasance of certain bonds. These deferred charges are recorded as a reduction of the new 1998 bonds and are amortized over the life of the defeased bonds. Amortization expense on these deferred charges was $1,337,000 and $2,485,000 for fiscal years 2001 and 2000, respectively.

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 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, 2001, the District has arbitrage liabilities related to the 1998 Bonds in the amount of $812,000 and the TFA Bridge Toll Notes amounting to $689,000. The arbitrage liabilities are payable no later than 60 days after the end of the Fifth Bond/Note Year which is March 12, 2003 for the 1998 Bonds and September 1, 2004 for the TFA Bridge Toll Notes.

Debt Repayments

The following is a schedule of long-term debt principal payments required as of June 30, 2001 (in thousands):

Year ending June 30	1990 Bonds	1991 Bonds	1995 Bonds	1998 Bonds	1999 Bonds	TFA Bridge Toll Notes	Construction Loans	FTA Capital Grant Bonds	Total
2002	$ 9,430	$ 2,270	$ 3,510	$ 845	$ -	$ 6,990	$ -	$ 58,695	$ 81,740
2003	9,485	2,465	3,680	880	-	7,320	-	41,620	65,450
2004	9,550	2,675	3,860	915	1,785	7,680	-	58,495	84,960
2005	9,615	-	4,055	3,860	1,860	8,075	-	61,295	88,760
2006	-	-	4,260	13,775	1,940	8,495	-	64,210	92,680
Thereafter	25,246	-	76,625	327,415	129,360	21,785	93,835	201,035	875,301
	$ 63,326	$ 7,410	$ 95,990	$ 347,690	$ 134,945	$ 60,34	$ 93,835	$ 485,350	$ 1,288,891
Less:									
Unamortized bond premium									15,391
Unamortized bond discount and issuance costs									(22,326)
Unamortized deferred charges on insubstance defeasance									(839)
Current portion									(81,740)
Net long-term portion									$ 1,199,377

7. Federal Grants

The U.S. Department of Transportation provides financial assistance to the District for capital projects, planning and technical assistance. Grants which were active during the year ended June 30, 2001 are summarized as follows (in thousands):

	San Francisco Airport Extension Project	Other Capital Projects
Total approved project costs	$ 1,355,720	$ 444,686
Total approved federal funds	$ 298,450	$ 358,643
Less cumulative amounts earned	594,540	265,548
Amounts below (in excess of) approved federal funds	$ (296,090)	$ 93,095

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

8. Local and State Financial Assistance

The District receives local operating and capital assistance from Transportation Development Act Funds ("TDA") For the year ended June 30, 2001, TDA operating assistance was $529,000 ($696,000 in 2000).There was no TDA capital assistance received in fiscal year 2001 ($600,000 in 2000). These funds were received from the counties of Alameda and San Mateo.

The District did not receive any State Transit Assistance Funds for fiscal years 2001 and 2000

9. Employees' Retirement Plan

Plan Description

All employees are eligible to participate in the Public Employees' Retirement Fund (Fund) of the State of California's Public Employees' Retirement System 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 2,487 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 ordinance

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

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

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

Funding Policy

The Plan's funding policy provides for periodic District contributions at actuarially- determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The individual entry age normal method is used to determine the normal cost, and beginning on July 1, 1997, the unfunded actuarial accrued surplus or liability (past service liability) is amortized as a level percentage of future covered payroll over 13 years for the Miscellaneous Plan and the Safety Plan. District contributions for the year ended June 30, 2001 to cover normal cost and to amortize the unfunded actuarial accrued surplus approximated 6 617% (6.539% in 2000) and 14.534% (11.919% in 2000) of covered payroll for the Miscellaneous Plan and the Safety Plan, respectively.

The District was not required to make contributions to the Fund for covered employees for the fiscal year 2001 due to a surplus of the District's portion of the Fund's net assets over the District's pension benefit obligation caused by a change in 1988 in the actuarial valuation method and an actual rate of return on investment assets that exceeded the assumed rate.

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2001 and 2000 was $191,080,000 and $178,393,000, respectively. The District's 2001 and 2000 payroll for all employees was $213,216,000 and $196,615,000, respectively. The District, due to a Collective Bargaining Agreement, also reimburses the employees for their contributions, which are 9% for public safety personnel and 7% for miscellaneous covered employees.

Since the District has made the actuarially-determined required contributions since 1988, the pension liability or asset was zero at June 30, 2001, in accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers.

Funding Status and Annual Pension Cost
Three-Year Trend Information for the Fund (in thousands)

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Miscellaneous Plan:	June 30, 1999	$ 8,799	100%	$ -
	June 30, 2000	$ 10,920	100%	$ -
	June 30, 2001	$ 11,370	100%	$ -
Safety Plan.	June 30, 1999	$ 497	100%	$ -
	June 30, 2000	$ 1,331	100%	$ -
	June 30, 2001	$ 1,692	100%	$ -

The required contribution was determined as part of an actuarial valuation performed as of June 30, 2000, the latest available for the Fund The significant actuarial assumptions used in the 2000 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 8.25%, annual payroll increases of 3.50% attributable to inflation, 0.25% attributable to real salary increases, and merit increases that vary by length of service, and no postretirement benefit increases

The funding status applicable to the District's employee group at June 30, 2000 (the latest available for the Fund) is summarized as follows:

Funded Status of the Miscellaneous Plan (in thousands):

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL as a Percentage of Payroll
6/30/98	$ 534,011	$ 737,029	$ (203,018)	138.0%	$ 153,861	(131.949)%
6/30/99	$ 587,709	$ 846,793	$ (259,084)	144.1%	$ 164,247	(157.741)%
6/30/00	$ 655,888	$ 947,519	$ (291,631)	144.5%	$ 172,132	(169.423)%

Funded Status of the Safety Plan (in thousands):

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL as a Percentage of Payroll
6/30/98	$ 51,007	$ 62,291	$ (11,284)	122.1%	$ 10,422	(108.269)%
6/30/99	$ 56,354	$ 71,453	$ (15,099)	126 8%	$ 11,211	(134.682)%
6/30/00	$ 65,225	$ 79,636	$ (14,412)	122.1%	$ 11,826	(121.868)%

Postretirement Health Care Cost
In addition to the retirement benefits described above, as specified in the District's ordinance, the District provides postretirement health care benefits assistance to all employees who retire directly from the District or to their surviving spouses. Substantially all of the District's employees may become eligible for those benefits if they reach age 50 with 5 years of service with the District. Currently, 614 retirees are provided this benefit. The District paid up to $155,000 per month for health insurance premiums for the retirees and surviving spouses during fiscal year 2001. These benefits are fully funded by the District and accounted for on a pay-as-you-go basis through payments to the Plan. Cash reimbursements of these benefits totaled $1,566,000 in 2001.

10. Deferred Compensation Plan

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

On January 1, 1997, the District amended the Plan to conform to the Federal Small Business Protection Act of 1996 ("SBPA"). The amendment provided for the creation of a trust for the deferred compensation plan and all income attributable to those amounts. The funds are not subject to the claims of the District's general creditors. The Plan is no longer considered part of the District's assets.

11. Money Purchase Pension Plan

Most District employees participate in the Money Purchase Pension Plan, which is a supplemental retirement program. 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, on a pay-as-you-go basis, an amount equal to 6.65% of covered employee's annual compensation (up to $29,700 after deducting the first $133 paid during each month) up to a maximum annual contribution of $1,868. Non-represented employees receive an additional 1.627% of annual regular earnings up to $160,000. 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 year ended June 30, 2001 and 2000 were $7,282,000 and $7,411,000, respectively. Money Purchase Pension Plan assets at June 30, 2001 and 2000 (excluded from the accompanying financial statements) were $226,644,766 and $231,441,000, respectively. At June 30, 2001, there were approximately 214 participants receiving benefits under this plan.

12. Board of Directors' Expenses

In May 2000, the annual reporting for the Board of Directors' travel and other business related expenses (Directors' expenses) was changed from a calendar to a fiscal year cycle. The total Directors' expenses for the fiscal years 2001 and 2000 amount to $31,000 and $34,000, respectively.

13. 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 20 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, 2001 are as follows (in thousands):

	Operating Leases
2002	$ 4,014
2003	3,704
2004	594
2005	66
2006	50
Thereafter	750
Total minimum payments	$ 9,178

Rent expense under all operating leases was $3,260,000 and $2,581,000 for the years ended June 30, 2001 and 2000, respectively.

Sale/Leaseback

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 recognized a gain on the sale of approximately $2,000,000 which is equal to the amount of cash received on the sale. The gain was deferred and is being amortized over 30 years In addition, the District recorded a receivable of $48,368,000 and a capital lease obligation of the same amount. The receivable and the liability will be reduced by a corresponding amount over the term of the lease. At June 30, 2001 and 2000, the balances of the receivable as well as the liability were $29,967,000 and $33,121,000, respectively. Other than the cash received upon the sale, no cash will be exchanged between the parties in settlement of the receivable and liability.

Accumulated depreciation related to the C-2 rail cars covered by the sale/leaseback agreement totaled $10,804,000 and $9,025,000 as of June 30, 2001 and 2000, respectively.

Sources and Uses of Operating Funds FY 2001 (Dollars in Thousands)

Sources of Funds
Total $430,830 100%

Passenger Fares
$213,260 49.50%

Transactions & Use Sales Tax
$143,516 33.31%

Property Tax $17,011 3.95%

Other $57,043 13.24%

- Investment Income & Other Operating Revenue
  $24,073 5 59%
- Regional Financial Assistance
  Local $529 0 12%
- Construction Funds Capitalized Costs)
  $32,441 7 53%

Uses of Funds
Total $430,830 100%

Maintenance $135,353 31.42%

Transportation
$100,406 23 31%

General and Administrative
$90,283 20.96%

Police Services
$25,007 5.80%

Other $79,781 18.51%

- Capital Designation
  $64,305 14 92%
- Construction & Engineering
  $15,476 3.59%

Sources and Uses of Capital Funds FY 2001 (Dollars in Thousands)

Sources of Funds
Total $485,222 100%

Federal	$242,386	49.95%
Local	$18,302	3.77%
State	$18,913	3.90%
District	$205,621	42.38%

Expenditures
Total $485,222 100%

Construction $327,849 67.57%

Line	$283,533	58 43%
Systemwide	$44,144	9 10%
Support Facilities	$173	0.04%

Equipment $147,958 30 49%

Train Control	$3,948	0 81%
Automatic Fare Collections	$19,384	4.00%
Communications	$2,265	0 47%
Management Information Systems	$67	0 01%
Transit Vehicles	$118,634	24.45%
Other Equipment	$3,659	0.75%

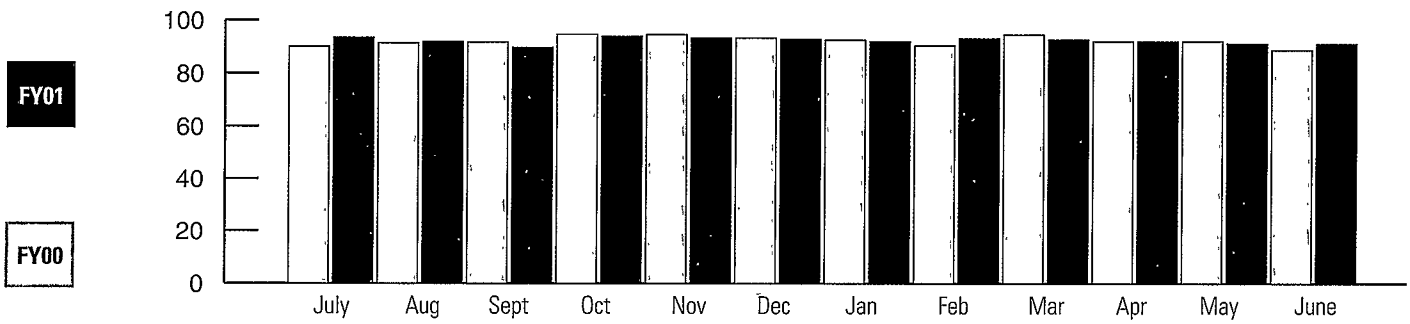
Studies & Other $9,415 1.94%

Performance Highlights • FY 2001 & 2000

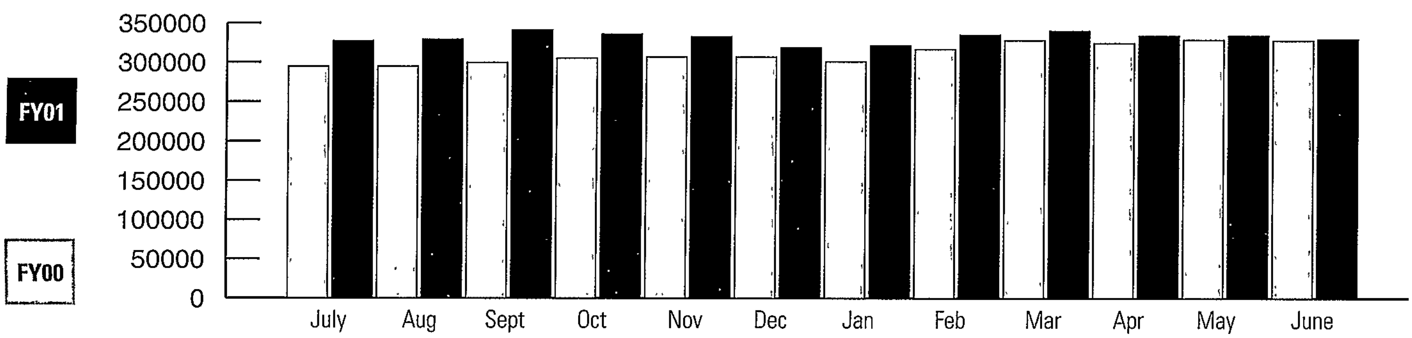
	2001	2000
Rail Ridership		
Annual passenger trips	97,280,846	91,092,289
Average weekday trips	331,586	310,268
Average trip length	12.99	13.00
Annual passenger miles	1,263,667,796	1,184,106,267
Daily train on-time performance	92.2%	92.1%
System utilization	31.5%	29.9%
End of Period ratios		
Peak patronage	58%	57%
Off-peak patronage	42%	43%
Operations		
Annual revenue car miles	58,771,224	57,377,586
Passenger accidents/million passenger trips	5.40	7.13
Passenger crimes/million passenger trips	48.17	45.76
Financial		
Net passenger revenue	$ 213,259,843	$ 194,291,205
Other operating revenue (excluding net change in fair value of investments)	$ 24,073,478	$ 18,806,592
Total operating revenue	$ 237,333,321	$ 213,097,797
Net operating expense (excluding depreciation)	$ 334,083,541	$ 314,798,648
System farebox ratio		
Net passenger revenue/net operating expense	63.8%	61.7%
System operating ratio		
Total operating revenue/net operating expense	71.0%	67.7%
Net rail passenger revenue/passenger mile	$ 0.168	$ 0.164
Rail operating cost/passenger mile	25.3¢	25.7¢
Net average rail passenger fare Including FastPass	$ 2.19	$ 2.13

Notes
1 FY01 system utilization reflects July 2000 through December 2000 date
2 The peak period was expanded in FY00 to include a three-hour am and three-hour pm time period Previously, a two-hour am and two-hour pm period were reported

On-Time Performance



Average Weekday Trips



BART System Map