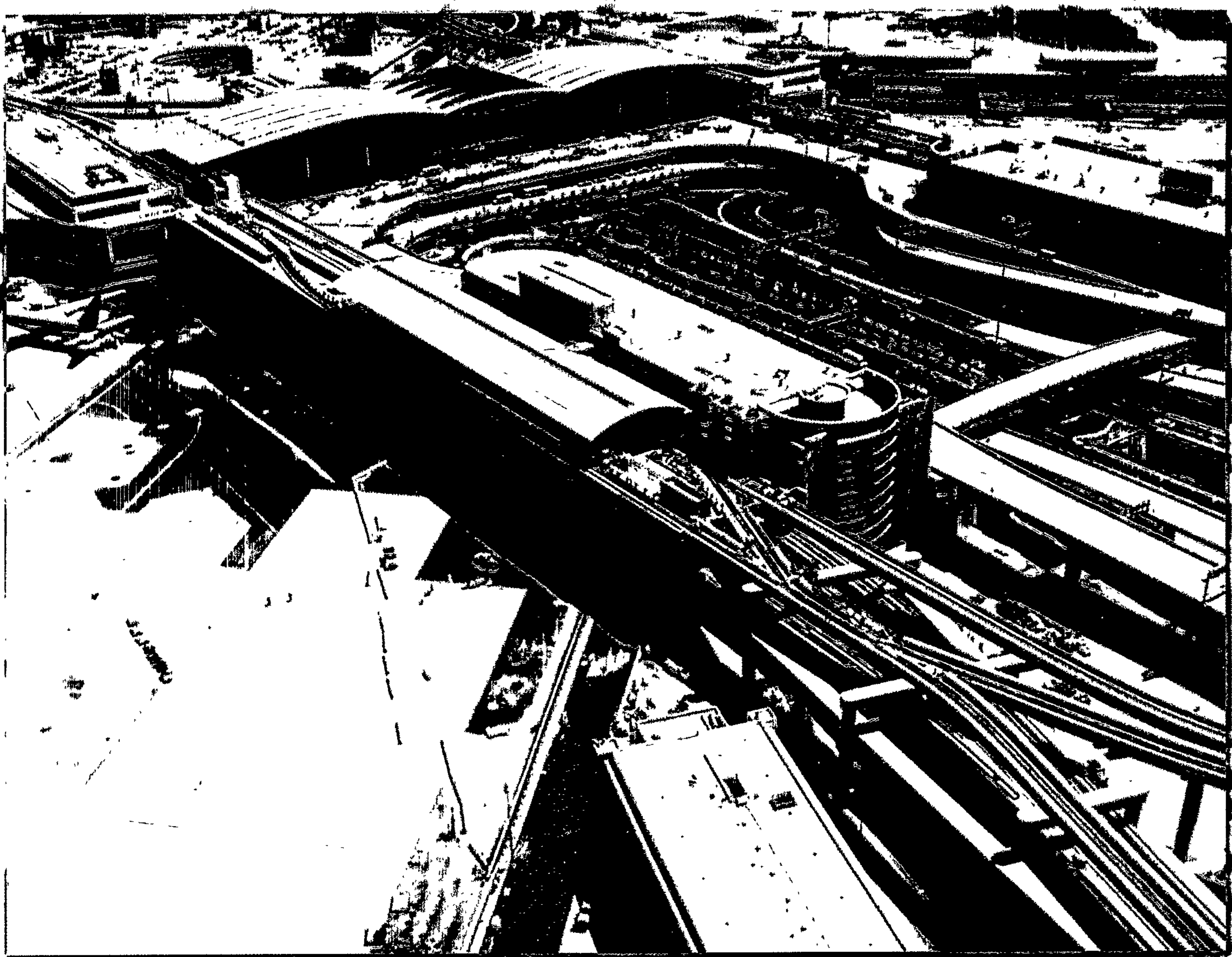

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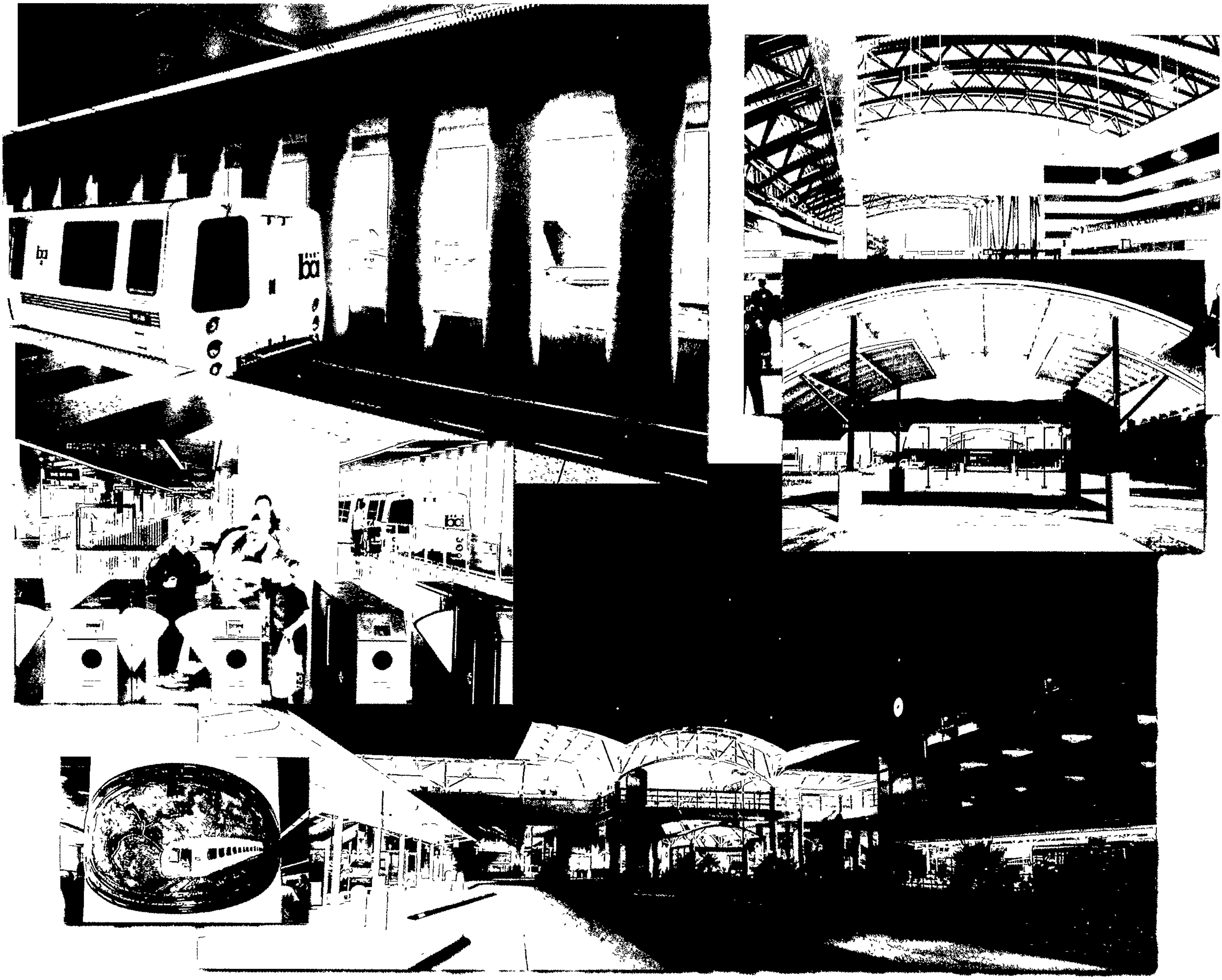
Connecting the World...



BART

2003 Annual Report

San Francisco Bay Area Rapid Transit District sources of revenue. Looking at a potential shortfall of almost $60 million we employed several measures to bring the budget in line with resources. Initially, these included expense reductions totaling $31.6 million. Through additional belt-tightening, general reductions in spending, reductions in force, and freezing all vacant positions, we successfully met the challenge and ended the year with a balanced budget.

In terms of how BART manages its finances in the years ahead, the BART Board of Directors adopted an important "Financial Stability Policy" which will act as an overall guideline for ensuring that the transit district's expenses are aligned with its resources. This means running cost effective operations while providing top value, optimum service for the money. It also means that revenue must keep pace with inflation. In keeping with the new Financial Stability Policy the board adopted productivity adjusted fare increases, based on the Consumer Price Index, to be implemented every two years beginning in 2006. A fare increase of ten percent was also approved to become effective in January 2004 to help make up the budget shortfall for the 2004 fiscal year. Additionally, the board approved a paid reserved parking program which went into effect in December 2002 on a pilot basis.

The BART Board also adopted a "System Expansion Policy" which sets very specific criteria for future extensions. These include enhancing regional mobility, mitigating/avoiding negative impacts to the core system by a future extension, ensuring that the extension is cost effective by attracting new riders and providing potential for transit oriented development.

By the end of the fiscal year we had also completed a successful six-month pilot program to test the feasibility and public acceptance of the TransLink Smart Card, which will eventually become the regional fare instrument. The program involves all of the major Bay Area operators. I believe TransLink, when fully operational in a few short years, will raise the bar considerably in terms of providing a new universal fare instrument option for our customers.

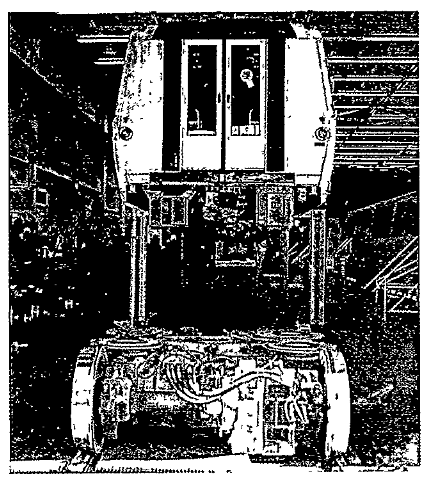
During the year we also put a strong emphasis on heightened security, improved surveillance, redeployed police for maximum presence during key periods of the day, and conducted a public information program designed to create top-of-mind awareness on the part of our riders. Additionally, we conducted several drills throughout the year to hone our response procedures and communications. I believe we have gone the extra mile to make the BART system as secure as possible.

When all is said and done it's the people at BART that continue to make it all happen day in and day out and I salute them because I believe they are among the best in the nation in this industry.

PROGRESS

Renovation Highlights –BART's $1.2 billion renovation program moved into the home stretch with 93 percent of the work completed by the end of June. The largest single element of the program, the complete rebuilding of the system's original fleet of 439 A & B transit cars, was completed when the last car was

officially put into service on September 18, 2002. Another major element of the program saw completion with the expansion of the Concord, Hayward and Daly City maintenance shops. One of the last major components of the renovation program, which was designed to modernize the system from top to bottom, is replacement of the fare vending equipment at all of the system's 39 stations, plus installation in the four new BART/SFO peninsula stations. The installation of the new faregates was well underway at the end of the fiscal period, and the new state-of-the-art ticket vending machines and addfare machines were in the pipeline with full rollout expected to be completed by the end of calendar year 2003.



BART/SFO Line Opens June 22 – Sunday, June 22 was without a doubt a golden day for BART and its partner, SamTrans, as revenue service on the new BART/SFO line officially began. The day before, Saturday, June 21, local, state, and federal dignitaries joined with BART Board members and staff to cut the obligatory ribbon in celebration of the event and marking a new era in regional transportation.

The first thing travelers might notice when taking BART into or out of the new San Francisco International Airport BART Station are two large works of art in the form of bronze plaques mounted on pillars in the middle of the station's concourse. The

From the General Manager Thomas E. Margro

OVERVIEW

I'm pleased to report that, despite the flagging economy this past year, we continued on a path of progress.

Most notably, of course, was the opening of the long-awaited new extension in San Mateo County to the San Francisco International Airport. After more than 30 years of overcoming a myriad of political, planning and funding hurdles, this critical component of the Bay Area's Transportation network finally came to fruition. However, historians may one day take the view that construction of the extension's infrastructure, which took about five years, was perfectly timed. That is, the extension came about at a time when the San Francisco International Airport underwent significant change and expansion, making it more accommodating for a BART rail line than with its original configuration. I firmly believe that had the extension actually been built 30 years ago when it was officially put on the radar screen, it would have been unable to provide the optimum service that it provides today. By the same token, had we not been able to build when we did, it might never have happened. Moreover, with a price tag of $1.5 billion it will never be cheaper to build.

We marked our 30th year of service to the people of the Bay Area with a modest cake-cutting ceremony at a regular meeting of the BART Board of Directors on September 12, 2002. Adding a special moment to the event, six-year-old Stephanie Ann Marie Ehler, the first and only baby to be born on a BART train, helped cut the cake. On BART's actual anniversary date, September 11, employees held a special event to raise funds for a memorial to the heroes of 9/11. The memorial will eventually be placed in the fountain area of BART's Lake Merritt administration building.

As we entered our 31st year of service, BART delivered to our customers an average 95.3% on time performance. While this compares well in the industry and met BART's standard, we will continue to strive for an even better performance as system improvements under our $1.2 billion renovation program are completed. Other customer service improvements included the enhancement of our award-winning website, making it even more user friendly with a detailed trip-planning feature. The trip-planning feature provides door-to-door transit information. This was in addition to an earlier feature in which we enabled our entire train schedule to be downloaded into hand held computers. Customer feedback indicated that this was a major convenience for trip planning.

We were very pleased with the findings of a customer satisfaction survey, which gave BART its highest rating since 1996 with 80 percent of respondents indicating they were "satisfied" or "very satisfied" with the service. Over 5,000 customers were surveyed in the fall of the report period. Additionally, 90 percent of those surveyed said they would recommend BART to a friend or out-of-town guest. Of particular note was the high rating received for the greatly improved reliability of facilities such as elevators, escalators, and rail cars, which ties directly to BART's reinvestment in the system through its renovation program.

While over the past several years we have managed to keep the cost per passenger mile to operate below the inflation rate, we again faced significant budget challenges for fiscal year 2003. This was due primarily to a continuing economic downturn, which had a negative impact on both ridership and sales tax receipts, BART's two primary

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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 statements of net assets and the related statements of revenues, expenses and changes in net assets, 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, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2003, 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 for the year ended June 30, 2003. 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.

The Management's Discussion and Analysis on pages 5 through 9 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

October 31, 2003

plaques represent something we at BART are very proud of, an award from the prestigious American Public Works Association naming BART as one of the top ten public works projects of the 20th century, right up there with such icons as the Golden Gate Bridge, the Panama Canal and the Hoover Dam.

Travelers will also experience the clean linear architecture and easy functionality of the new station. The airport station is served by direct trains originating from Dublin/Pleasanton in the East Bay, and by a shuttle train, which operates between the airport station and Millbrae. Meanwhile, direct service between Millbrae and the East Bay is provided by Pittsburg/Bay Point trains. As a gateway to San Francisco, the new line will offer an easy and convenient option for visitors to the Bay Area, as well as residents of the region, to get directly to and from key downtown locations, or destinations in the East Bay. Also served by stations in South San Francisco and San Bruno, it is expected that in the years to come the new line will serve as a magnet and planning tool for mixed-use development.

First AATC Ride – On September 27, BART gave an inaugural train ride to officials, project consultants and members of the media under its newly developed Advanced Automatic Train Control (AATC) system. The ride was from BART's Bay Fair Station to the Lake Merritt Station, a little over 10 miles. It was a very successful demonstration of the technology, which BART engineers and consultants have been developing. Not only will AATC signal a new era for train control systems in the 21st century, it will pave the way for the system's capacity expansion as ridership grows beyond its current limits in the years ahead. The new control system, which operates on a radio communication technology, will allow about 30 percent more trains per hour to be operated through the Transbay tube, at the core of the system's traffic. The next phase of the project will be to complete installation from the East Bay to Daly City. It is expected that the AATC will be fully operational within two years.

Earthquake Safety – At the beginning of fiscal year 2003, BART made the determination to seek voter approval in the forthcoming November 2002 election for a $1.050 billion bond referendum to help fund its critical earthquake safety program. While the measure failed to secure the two-thirds voter approval, it in fact, was a very close vote (64.5% voted yes) and an indication that there is wide support to upgrade BART's infrastructure to withstand a major earthquake. Seismologists have predicted that the Bay Area could be hit by a major quake in the next 30 years. BART, when first built in the 1960s, had the advanced 'state-of-the-art' in its design to withstand the strongest known earthquake. Engineers and consultants today believe it is imperative that the system upgrade to reflect new technology and new knowledge about the potential impact of a major quake. BART is seeking funding from both state and federal sources, but may ultimately go back to the voters with another bond issue in the future. The seismic retrofit program is estimated to take about 10 years to complete.

Capitol Corridor – In a little less than five short years (October 1998 – June 2003) we have grown the ridership on the Capitol Corridor trains by 145 percent. When BART took over management, under the Capitol Corridor Joint Powers Authority, the inter-city service consisted of four trains making eight round-trips a day. Annual ridership was averaging about 463,000. Today 24 Capitol Corridor Trains are making 12 round-trips a day, serving annual ridership of over 1.1 million. Six round-trip trains were added this past fiscal year. Several marketing strategies were employed during the year, including a joint advertising campaign with Amtrak, and several event promotions. Operated by Amtrak under a contract with the Joint Powers Authority, Capitol Corridor trains are one of the rail operator's top performers nationally.

EXTENSIONS

Oakland Connector – By the end of the fiscal year, Preliminary Engineering for the Oakland Airport Connector was 70 percent complete. The BART Board gave approval to move ahead with a design/build approach, and to begin the process to pre-qualify potential bidders. The project calls for building an automated Guideway system connecting the BART Coliseum Station with the Oakland International Airport. When completed the three-mile connector system will operate at about eight minute intervals, and serve almost 6 million rides annually by the year 2020.

Warm Springs – Progress was seen in several areas for this long awaited extension. The first phase of Preliminary Engineering (PE) was begun in December 2002, and an agreement was reached with ACTIA, which made $10 million available for the purchase of critical right-of-way. The Draft Supplemental Environmental Impact Report (DSEIR) went before a public hearing in April and was adopted by the BART Board in June.

Eastbay – Meanwhile, discussions continued with local community leaders concerning potential service to the outlying areas of Livermore in eastern Alameda County, and Antioch and Brentwood in eastern Contra Costa County.

FINANCIAL HIGHLIGHTS

Statement 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 2003 and 2002 is as follows:

(in thousands of dollars)			Increase (Decrease)	
	2003	2002	Amount	%
Operating revenues	$ 205,104	$ 207,608	$ (2,504)	(1%)
Operating expenses	(442,936)	(432,656)	(10,280)	(2%)
Operating loss	(237,832)	(225,048)	(12,784)	(6%)
Nonoperating revenues	184,765	184,301	464	0%
Capital contributions	130,193	235,825	(105,632)	(45%)
Increase in net assets	$ 77,126	$ 195,078	$ (117,952)	(60%)

An increase or decrease in net assets is an indicator of whether the District's financial health is improving or deteriorating. For the fiscal years ended June 30, 2003 and 2002, the District's net assets increased by $77,126,000 and $195,078,000, respectively.

The decrease in operating revenues is the effect of the continuing decline in the Bay Area economy, which caused a 5% drop in average weekday ridership from 329,527 in 2002 to 313,557 in 2003. The increase in operating expenses of $10,280,000 is mainly due to the increase in depreciation expense, which is a non-cash transaction. Excluding depreciation expense, the operating expenses for fiscal year 2003 showed a very slight increase of $898,000 over fiscal year 2002, which was made possible through aggressive cost control measures, efficiencies and one-time savings adopted by the District throughout the year. Revenues from capital contributions represent grants for capital projects that the District earned from the federal, state and other local funding agencies. Revenues from capital contributions are considered earned at the time eligible project costs are incurred by the District. The revenues from capital contributions in fiscal year 2003 amount to $130,193,000 as compared to $235,825,000 for the prior year, which is a decrease of $105,632,000. The decrease is due to less eligible capital costs incurred in 2003 because of the winding down to completion of the San Francisco International Airport Extension and the A&B Car Rehabilitation projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 year ended June 30, 2003 with selected comparative information for the year ended June 30, 2002. This discussion has been 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, including the new San Francisco International Airport Extension, 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.

In 2003, the District substantially completed the construction of the system extension to the San Francisco International Airport. The new extension added 10 track miles and 4 stations to the existing system. The San Francisco International Airport Extension started its revenue operations on June 22, 2003.

The Financial Statements

The District's basic financial statements include the (1) *Statement of Net Assets*, (2) *Statement of Revenues, Expenses and Changes in Net Assets*, and (3) *Statement of Cash Flows*. 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 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 asset 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, reserves for liabilities to employees for accrued salaries, benefits and compensated absences, reserves for self-insurance and other liabilities, which indicate that management does not consider them to be available for general operations.

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 as nonoperating revenues.

Statement of Cash Flows is presented using the direct method and includes a reconciliation of operating cash flows to operating income.

Long-Term Debt

The outstanding balance of long-term debt showed a decrease of $7,813,000 and an increase of $241,061,000 at the end of fiscal years 2003 and 2002, respectively. Below is a summary of long-term debt as of June 30, 2003 and 2002 (including current portion but excluding unamortized balance of debt issue costs and bond premium/discounts):

(in thousands of dollars)			Increase (Decrease)	
	2003	2002	Amount	%
Bonds payable from and collateralized by a pledge of sales tax revenues	$ 748,802	$ 762,501	$ (13,699)	(2%)
Bonds payable from and collateralized by the Federal Full Funding Grant Agreement for the San Francisco International Airport Extension	368,035	426,655	(58,620)	(14%)
Notes payable from bridge toll revenues	46,035	53,355	(7,320)	(14%)
Construction loans payable from the net operating surplus of the San Francisco International Airport Extension	88,500	88,500	–	0%
Construction loan for temporary cash flow requirements of the San Francisco International Airport Extension	19,645	12,325	7,320	59%
Lease/leaseback obligation, including option price, for rail traffic control equipment	194,407	186,616	7,791	4%
Bonds payable from the premium fare imposed on the passengers who board on or depart from the San Francisco International Airport Station	56,715	–	56,715	100%
	$ 1,522,139	$ 1,529,952	$ (7,813)	(1%)

Addition to Long-Term Debt in Fiscal Year 2003

On October 1, 2002, the Association of Bay Area Governments ("ABAG") issued BART SFO Extension Bonds (Airport Premium Fare), 2002 Series A, in the amount of $56,715,000. The proceeds are used to finance a portion of the costs of the San Francisco International Airport Extension project. The bonds are payable solely from the premium fare imposed on passengers who board or depart the District's rapid transit system at the San Francisco International Airport Station. The bonds were given ratings of AAA, Aaa and AAA by three national rating agencies.

Additions to Long-Term Debt in Fiscal Year 2002

In fiscal year 2002, the District issued Series 2001 Sales Tax Revenue Bonds for $168,650,000 to fund certain capital projects and to refund $41,175,000 aggregate principal amount of currently outstanding bonds to achieve cash flow savings. The uninsured portion of Series 2001 Bonds with a principal amount of $2,685,000 was given ratings of AA, Aa3 and AA– by three national rating agencies, while the insured portion with principal amount totaling $165,965,000 received ratings of AAA, Aaa and AAA from the same three national rating agencies.

Statement of Net Assets

A comparison of the District's *Statements of Net Assets* as of June 30, 2003 and 2002 is as follows:

(in thousands of dollars)	2003	2002	Increase (Decrease) Amount	%
Current assets	$ 641,973	$ 662,999	$ (21,026)	(3%)
Noncurrent assets – capital assets, net	4,999,477	4,817,029	182,448	4%
Noncurrent assets – other	542,196	682,690	(140,494)	(21%)
Total assets	$ 6,183,646	$ 6,162,718	$ 20,928	0%
Current liabilities	$ 311,637	$ 320,676	$ (9,039)	(3%)
Noncurrent liabilities	1,478,889	1,526,048	(47,159)	(3%)
Total liabilities	$ 1,790,526	$ 1,846,724	$ (56,198)	(3%)
Net assets				
Invested in capital assets, net of debt	$ 3,869,281	$ 3,715,588	$ 153,693	4%
Restricted net assets	371,215	461,611	(90,396)	(20%)
Unrestricted net assets	152,624	138,795	13,829	10%
Total net assets	$ 4,393,120	$ 4,315,994	$ 77,126	2%

Capital Assets

As of the end of fiscal year 2003, the District's capital assets, before accumulated depreciation, increased by $274,678,000 ($522,855,000 in 2002). The major additions in 2003 included capital expenditures for the San Francisco International Airport Extension project ($122,909,000), System Wide Construction ($31,916,000), Revenue Car Modification and Rehabilitation ($46,552,000) and the Automatic Fare Collection (AFC) Equipment Modernization ($21,764,000).

Details of the capital assets, net of accumulated depreciation, as of June 30, 2003 and 2002 are as follows:

(in thousands of dollars)	2003	2002	Increase (Decrease) Amount	%
Land	$ 476,202	$ 245,835	$ 230,367	94%
Stations, track, structures and improvements	2,518,050	1,439,955	1,078,095	75%
Buildings	22,058	22,346	(288)	(1%)
Revenue transit vehicles	669,801	699,753	(29,952)	(4%)
Other	301,445	240,034	61,411	26%
Construction in progress	1,011,921	2,169,106	(1,157,185)	(53%)
	$ 4,999,477	$ 4,817,029	$ 182,448	4%

On March 19, 2002, the District entered into a head lease agreement to lease rail traffic control equipment (the "Network") which includes communications, train control, central control equipment and destination sign systems with an aggregate net book value of $203,000,000. The District simultaneously entered into a sublease agreement to lease the Network back. The head lease has a term of 40 years, which expires on March 19, 2042. The sublease has a term of 15 years and 9 months expiring on January 2, 2018. On the expiration date of the sublease agreement, the District has the option to purchase the remaining terms of the head lease agreement. The District received $206,000,000 for basic lease payments under the head lease agreement, of which $146,000,000 was paid to a Payment Undertaker and $37,000,000 was deposited in a third party trust account. Both funds are to be used to pay the District's lease obligation under the sublease agreement and to provide funds when the District exercises the purchase option. The remaining proceeds from the head lease of $23,000,000 was deposited to the District's bank account representing gross nonoperating revenue from the transaction.

Statement of Cash Flows/Cash and Investments

A comparative presentation of the major sources and uses of cash for 2003 and 2002 are as follows:

(in thousands of dollars)			Increase (Decrease)	
	2003	2003	Amount	%
Net cash used by operating activities	$ (132,666)	$ (123,383)	$ (9,283)	(8%)
Net cash provided by noncapital financing activities	130,470	136,992	(6,522)	(5%)
Net cash used by capital and related financing activities	(125,652)	(189,485)	63,833	34%
Net cash provided by investing activities	(21,402)	79,136	(100,538)	(127%)
Net increase in cash and cash equivalents	(149,250)	(96,740)	(52,510)	(54%)
Cash and cash equivalents, beginning of year	432,013	528,753	(96,740)	(18%)
Cash and cash equivalents, end of year	$ 282,763	$ 432,013	$ (149,250)	(35%)

The total cash and investments held by the District and trustee banks at the end of fiscal year 2003 amounted to $621,250,000 which is a decrease of $114,264,000 compared to the balance of $735,514,000 on June 30, 2002. The decrease in cash and investments is mainly attributed to capital expenditures during the year amounting to $317,056,000 reduced by reimbursements received from federal, state and other local grants of $187,328,000 or a net disbursement for capital projects of $129,728,000.

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 San Francisco Bay Area Rapid Transit District's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Scott Schroeder, Controller-Treasurer, at 800 Madison Street, Oakland, California 94607.

STATEMENTS OF NET ASSETS

June 30, 2003 and 2002 *(in thousands of dollars)*

Assets	**2003**	**2002**
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 86,185	$ 245,677
Investments	93,237	14,662
Capital grants receivable	59,232	49,191
Other receivables	19,067	12,145
Materials and supplies	25,514	24,711
Total unrestricted current assets	283,235	346,386
Restricted assets		
Cash and cash equivalents	196,578	186,336
Investments	39,119	16,183
Capital grants receivable	100,000	100,000
Other receivables	19,887	10,940
Current portion of capital lease receivable	3,154	3,154
Total restricted current assets	358,738	316,613
Total current assets	641,973	662,999
Noncurrent assets		
Capital assets: Facilities, property and equipment, net	4,999,477	4,817,029
Investments - restricted	136,662	230,446
Investments - unrestricted	69,469	42,210
Capital grants receivable - restricted	170,896	241,640
Long-term portion of capital lease receivable - restricted	20,504	23,659
Deferred charges - unrestricted	994	1,473
Other receivables - restricted	142,235	141,690
Other assets - unrestricted	1,436	1,572
Total noncurrent assets	5,541,673	5,499,719
Total assets	6,183,646	6,162,718
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and other liabilities	186,762	230,007
Current portion of long-term debt	100,442	69,361
Self-insurance liabilities	12,681	10,735
Deferred revenue	8,598	7,419
Capital lease liability	3,154	3,154
Total current liabilities	311,637	320,676
Noncurrent liabilities		
Long-term debt, net of current portion	1,408,507	1,448,845
Self-insurance liabilities	16,344	17,185
Deferred revenue	33,534	35,809
Capital lease liability	20,504	23,659
Other noncurrent liabilities	–	550
Total noncurrent liabilities	1,478,889	1,526,048
Total liabilities	1,790,526	1,846,724
Commitments and contingencies (Notes 3 and 13).		
Net assets		
Invested in capital assets, net of related debt	3,869,281	3,715,588
Restricted net assets	371,215	461,611
Unrestricted net assets	152,624	138,795
Total net assets	$ 4,393,120	$ 4,315,994

The accompanying notes are an integral part of these financial statements

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2003 and 2002

(in thousands of dollars)

	2003	2002
Cash flows from operating activities		
Receipts from customers	$ 192,532	$ 194,998
Payments to suppliers	(95,670)	(91,862)
Payments to employees	(241,657)	(238,093)
Other operating cash receipts	12,129	11,574
Net cash used by operating activities	(132,666)	(123,383)
Cash flows from noncapital financing activities		
Transactions and use tax (sales tax) received	108,223	116,070
Property tax received	19,606	19,140
Financial assistance received	2,641	1,782
Net cash provided by noncapital financing activities	130,470	136,992
Cash flows from capital and related financing activities		
Transactions and use tax (sales tax) received	59,218	56,704
Capital grants received	187,328	191,980
Proceeds from issuance of 2002 SFO Premium Fare Bond	56,715	–
Proceeds from issuance of sales tax revenue bonds	–	168,650
Proceeds from construction loans	10,000	10,000
Expenditures for facilities, property and equipment	(317,056)	(510,269)
Principal paid on long-term debt	(80,830)	(122,915)
Proceeds from lease/leaseback of rail traffic control equipment	–	60,251
Payments of long term debt issuance and service costs	(2,630)	(4,837)
Premium received from issuance of long term debt	1,136	–
Interest paid on long term debt	(39,915)	(39,202)
Principal payments received from installment receivable	382	153
Net cash used by capital and related financing activities	(125,652)	(189,485)
Cash flows from investing activities		
Proceeds from sale and maturity of investments	230,933	343,867
Purchase of investments	(262,166)	(298,128)
Interest on investments	9,831	33,397
Net cash (used) provided by investing activities	(21,402)	79,136
Net decrease in cash and cash equivalents	(149,250)	(96,740)
Cash and cash equivalents, beginning of year	432,013	528,753
Cash and cash equivalents, end of year	$ 282,763	$ 432,013

The accompanying notes are an integral part of these financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the years ended June 30, 2003 and 2002
(in thousands of dollars)

	2003	2002
Operating revenues		
Fares	$ 191,386	$ 193,701
Other	13,718	13,907
Total operating revenues	205,104	207,608
Operating expenses		
Transportation	105,155	101,400
Maintenance	135,938	134,275
Police services	28,135	27,446
Construction and engineering	16,654	15,526
General and administrative	94,900	97,708
Depreciation	103,669	94,287
Total operating expenses	484,451	470,642
Less - capitalized costs	(41,515)	(37,986)
Net operating expenses	442,936	432,656
Operating loss	(237,832)	(225,048)
Nonoperating income (expense)		
Transactions and use tax (sales tax)	167,441	172,774
Property tax	20,253	18,713
State and local financial assistance	2,419	1,253
Investment income	35,424	28,131
Interest expense	(40,502)	(36,044)
Other expense, net	(270)	(526)
Total nonoperating income, net	184,765	184,301
Loss before capital contributions	(53,067)	(40,747)
Capital contributions		
Grants restricted for capital expenditures (Note 1)	130,193	235,825
Net assets		
Increase in net assets	77,126	195,078
Total net assets, beginning of year	4,315,994	4,120,916
Total net assets, end of year	$ 4,393,120	$ 4,315,994

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

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 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, the financial statements of the District (the "primary government") include those of the Transit Financing Authority (the "Authority").

Basis of Accounting and Presentation

The District is accounted for as a Business Type Activity, as defined by GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, and its financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Grants Restricted for Capital Expenditures

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. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, capital grants are required to be included in the determination of net income resulting in an increase in net revenue of $130,193,000 and $235,825,000 for the fiscal years 2003 and 2002, respectively.

Under GASB Statement No. 34, grants restricted for capital expenditures are presented in the net asset section as invested in capital assets, net of related debt.

Proprietary Accounting and Financial Reporting

As required under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District will continue to apply 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 Procedure 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 to not apply all FASB Statements and Interpretations issued after November 30, 1989, due to the nature of the District's operations.

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. All other net assets are unrestricted.

Cash Equivalents

The District considers all money market funds and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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.

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 or by laws or regulations.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2003 and 2002
(in thousands of dollars)

Continued

	2003	2002
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (237,832)	$ (225,048)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	103,669	94,287
Realized gain from deferred revenue	–	(1,913)
Amortization of deferred charges	135	145
Net effect of changes in		
(Increase) decrease in other receivables	(4,033)	1,520
Increase in materials and supplies	(803)	(1,018)
Increase in accounts payable and other liabilities	5,349	10,271
Decrease (increase) in self-insurance liabilities	1,105	(191)
Decrease in deferred revenue	(256)	(1,436)
Net cash used by operating activities	$ (132,666)	$ (123,383)

The accompanying notes are an integral part of these financial statements

2. Cash and Investments

The District maintains a cash and investment pool that includes cash and investments that are restricted due to externally imposed constraints, available for general use and designated by management for specific purposes.

Deposits

The carrying amount of the District's deposits with banks and cash on hand was $57,475,000 and $99,420,000 at June 30, 2003 and 2002, respectively. The corresponding bank balance was $55,004,000 and $102,169,000 at June 30, 2003 and 2002, respectively. Of the bank balance, $1,935,000 and $1,723,000 for 2003 and 2002, respectively, was insured by federal depository insurance or collateralized by securities held by the District's agent in the District's name, and $53,069,000 and $100,446,000 for 2003 and 2002, respectively, 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, 2003 and 2002. 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 of dollars)	2003			2002		
	Category (at cost)		Fair Value	Category (at cost)		Fair Value
	1	2		1	2	
Money market	$ –	$ 130,674	$ 130,674	$ –	$ 5,875	$ 5,875
U.S. Treasury securities	124,176	48,010	173,625	31,872	38,760	70,726
Federal agency obligations	101,381	48,043	150,513	84,685	116,764	202,643
Repurchase agreements	25,819	34,704	60,523	184,864	147,569	332,433
Local agency investment fund	3,627	–	3,627	15,000	–	15,000
Corporate obligations	–	36,222	44,813	–	8,848	9,417
Total	$ 255,003	$ 297,653	563,775	$ 316,421	$ 317,816	636,094
Cash on hand			3,044			2,415
Time and demand deposits			54,431			97,005
Total			$ 621,250			$ 735,514

The cash and investments are presented at fair value in the statement of net assets as follows:

(in thousands of dollars)	2003			2002		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Current assets						
Cash and cash equivalents	$ 86,185	$ 196,578	$ 282,763	$ 245,677	$ 186,336	$ 432,013
Investments - current	93,237	39,119	132,356	14,662	16,183	30,845
Noncurrent assets						
Investments	69,469	136,662	206,131	42,210	230,446	272,656
Total	$ 248,891	$ 372,359	$ 621,250	$ 302,549	$ 432,965	$ 735,514

Materials and Supplies
Materials and supplies consist primarily of replacement parts for the system and rail vehicles. Materials and supplies are stated at cost 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 is transferred to net assets – invested in capital assets, net of related debt 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 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. Net interest in the amount of $39,981,000 and $7,739,000 was capitalized during the years ended June 30, 2003 and 2002, respectively.

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

Fare Operating Revenues
Fare operating revenues are earned as passengers utilize the train service. Deferred revenue includes an estimate of passenger tickets purchased which have not yet been used as well as 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.

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 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 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 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 and the related expenditures are incurred.

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

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on the prior year income.

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 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.

The District is currently involved in construction of Phase 1 of an extension program that will add 38 miles of track and 10 new stations to the system at a total cost of approximately $3,342,000,000. Of these 10 new stations included in Phase I, the stations at the Dublin/Pleasanton, Pittsburg/Bay Point, Colma and San Francisco International Airport extensions are open and in revenue service. 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 ($367,000,000).

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $678,180,000 at June 30, 2003, ($621,184,000 in 2002).

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 of up to $77,000,000. The District entered into various agreements with the City and County of San Francisco, acting by and through SFIA, which defined the specific project costs that could be funded from the $ 77,000,000 contribution. The agreement stated that the contributions 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"). 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 substantially completed in 2003 and revenue operations started on June 22, 2003. All costs incurred as of June 30, 2003, including those paid from and/or incurred against the SFIA contribution, have been capitalized to fixed assets and accordingly are subject to depreciation. As of June 30, 2003, the fixed assets related to the SFIA contribution amounted to $55,651,000 with an accumulated depreciation of $65,000.

3. Changes in Capital Assets

Facilities, property and equipment at June 30, 2003 and 2002 are summarized as follows:

(in thousands of dollars)	Lives (Years)	2002	Additions & Transfers	Retirement & Transfers	2003
Non Depreciated Assets					
Land		$ 245,835	$ 230,898	$ (531)	$ 476,202
Construction-in-progress		2,169,106	306,347	(1,463,532)	1,011,921
Total non depreciated assets		2,414,941	537,245	(1,464,063)	1,488,123
Depreciated Assets					
Stations, track, structures and improvements	80	1,896,367	1,105,421	(555)	3,001,233
Buildings	80	26,587	45	–	26,632
System-wide operation and control	20	419,284	87,050	(4,139)	502,195
Revenue transit vehicles	30	1,008,773	21,524	(568)	1,029,729
Revenue transit vehicles under capital lease	30	55,593	–	–	55,593
Service and miscellaneous equipment	3-20	51,605	5,645	(4,986)	52,264
Capitalized construction and start-up costs	30	98,314	–	(9)	98,305
Repairable property items	30	24,181	–	(7,932)	16,249
Total depreciated assets		3,580,704	1,219,685	(18,189)	4,782,200
Less: accumulated depreciation and amortization		(1,178,616)	(103,669)	11,439	(1,270,846)
Depreciated assets net of accumulated depreciation		2,402,088	1,116,016	(6,750)	3,511,354
Total		$ 4,817,029	$ 1,653,261	$ (1,470,813)	$ 4,999,477

(in thousands of dollars)	Lives (Years)	2001	Additions & Transfers	Retirement & Transfers	2002
Non Depreciated Assets					
Land		$ 243,478	$ 2,357	$ –	$ 245,835
Construction-in-progress		1,858,955	536,957	(226,806)	2,169,106
Total non depreciated assets		2,102,433	539,314	(226,806)	2,414,941
Depreciated Assets					
Stations, track, structures and improvements	80	1,891,883	4,492	(8)	1,896,367
Buildings	80	17,877	8,710	–	26,587
System-wide operation and control	20	397,292	22,625	(633)	419,284
Revenue transit vehicles	30	834,735	174,038	–	1,008,773
Revenue transit vehicles under capital lease	30	53,366	2,227	–	55,593
Service and miscellaneous equipment	3-20	53,390	2,646	(4,431)	51,605
Capitalized construction and start-up costs	30	98,342	(28)	–	98,314
Repairable property items	30	23,472	858	(149)	24,181
Total depreciated assets		3,370,357	215,568	(5,221)	3,580,704
Less: accumulated depreciation and amortization		(1,089,675)	(94,287)	5,346	(1,178,616)
Depreciated assets net of accumulated depreciation		2,280,682	121,281	125	2,402,088
Total		$ 4,383,115	$ 660,595	$ (226,681)	$ 4,817,029

Capitol Corridor Joint Powers Authority

The Joint Exercise of Powers Agreement (the "Capitol Corridor 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 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 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.

At the end of the term or upon the earlier termination of the Capitol Corridor Agreement, all assets of Capitol Corridor 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 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 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. In 2000, Harmon Industries was purchased by GE Transportations Systems, and Harmon became known as GE Transportation Systems, Global Signaling.

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, 2003 and 2002, the District had provided the Alliance with approximately $12,758,000 in cumulative in-kind contributions. In addition, the District incurred $21,528,000 and $20,890,000 of direct costs as of fiscal year 2003 and 2002, respectively, of which $948,000 was reimbursed by the Alliance. A majority of the direct costs have been capitalized as construction-in-progress.

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. The District supported the project primarily through its own operating funds, with some financial assistance amounting to $1,630,602 from Alameda County Measure B funds related to fiscal year 2003, of which $208,802 was received by the District after June 30, 2003.

4. Risk Management

The District is partially self-insured for workers' compensation, public liability and property damage claims. Beginning July 2003, the self-insured maximum for workers' compensation was increased from $500,000 to $1,000,000. 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. 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 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. 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, 2003 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.

At June 30, 2003 and 2002, the amount of these liabilities was $29,025,000 and $27,920,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal year are as follows:

(in thousands of dollars)	2003	2002
Liabilities at beginning of year	$ 27,920	$ 28,110
Current year claims and changes in estimates	8,266	7,128
Payments of claims	(7,161)	(7,318)
Liabilities at end of year	$ 29,025	$ 27,920

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 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 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.

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, 2003, the notes outstanding amount to $46,035,000 with interest rates ranging from 4.75% to 5.75% and mature from August 2003 through February 2007.

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, 2003, 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 $18,547,000 of capital appreciation serial bonds ($7,877,000 original amount) with a yield of 6.75% due from 2003 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. The final principal payment of $2,465,000 was made during fiscal year 2003. There were no bonds payable at June 30, 2003.

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. In July 2001, the District used part of the proceeds from 2001 Sales Tax Revenue Bonds to defease $18,585,000 of serial bonds due from 2002 to 2010 and $19,915,000 term bonds due from 2012 to 2015. At June 30, 2003, the 1995 Bonds consist of $21,560,000 serial bonds due from 2003 to 2011 with interest rates ranging from 5.0% to 5.7% and $30,360,000 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, 2003, the 1998 Bonds consist of $153,595,000 serial bonds due from 2003 to 2018 with interest rates ranging from 3.9% to 5.50%, $79,105,000 of a term bond due July 1, 2023 with interest rate of 4.75% and $113,265,000 of a 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, 2003, 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%.

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 extension of the System to San Francisco International Airport and to refund certain outstanding bonds with principal amounts of $41,175,000 to achieve cash flow savings. At June 30, 2003, the 2001 Bonds consist of $60,675,000 serial bonds due from 2003 to 2021 with interest rates ranging from 4.375% to 5.25%, $27,420,000 of a term bond due July 1, 2026 with an interest rate of 5%, $35,205,000 of a term bond due July 1, 2031 with an interest rate of 5%, and $45,350,000 of a term

6. Long-Term Debt

Long-term debt at June 30, 2003 and 2002 is summarized as follows:

(in thousands of dollars)	2002	Additions/ Accretion	Payments/ Defeasance & Amortization	2003
1990 Sales Tax Revenue Refunding Bonds	$ 55,616	$ 1,191	$ (9,485)	$ 47,322
1991 Sales Tax Revenue Refunding Bonds	2,465	–	(2,465)	–
1995 Sales Tax Revenue Refunding Bonds	53,980	–	(2,060)	51,920
1998 Sales Tax Revenue Refunding Bonds	346,845	–	(880)	345,965
1999 Sales Tax Revenue Refunding Bonds	134,945	–	–	134,945
2001 Sales Tax Revenue Refunding Bonds	168,650	–	–	168,650
TFA Bridge Toll Notes	53,355	–	(7,320)	46,035
Construction Loans	100,825	7,320	–	108,145
FTA Capital Grant Bonds	426,655	–	(58,620)	368,035
Lease/leaseback obligation	186,616	13,322	(5,531)	194,407
2002 SFO Extension Premium Fare Bonds	–	56,715	–	56,715
	1,529,952	78,548	(86,361)	1,522,139
Less: premium/discounts	(11,746)	(2,219)	775	(13,190)
Long-term debt net of premium/discounts	1,518,206	$ 76,329	$ (85,586)	1,508,949
Less: current portion of long-term debt	(69,361)			(100,442)
Net long-term debt	$ 1,448,845			$ 1,408,507

(in thousands of dollars)	2001	Additions/ Accretion	Payments/ Defeasance & Amortization	2002
1990 Sales Tax Revenue Refunding Bonds	$ 63,326	$ 1,720	$ (9,430)	$ 55,616
1991 Sales Tax Revenue Refunding Bonds	7,410	–	(4,945)	2,465
1995 Sales Tax Revenue Refunding Bonds	95,990	–	(42,010)	53,980
1998 Sales Tax Revenue Refunding Bonds	347,690	–	(845)	346,845
1999 Sales Tax Revenue Refunding Bonds	134,945	–	–	134,945
2001 Sales Tax Revenue Refunding Bonds	–	168,650	–	168,650
TFA Bridge Toll Notes	60,345	–	(6,990)	53,355
Construction Loans	93,835	6,990	–	100,825
FTA Capital Grant Bonds	485,350	–	(58,695)	426,655
Lease/leaseback obligation	–	186,616	–	186,616
	1,288,891	363,976	(122,915)	1,529,952
Less: premium/discounts	(6,935)	(6,636)	1,825	(11,746)
Long-term debt net of premium/discounts	1,281,956	$ 357,340	$ (121,090)	1,518,206
Less: current portion of long-term debt	(81,740)			(69,361)
Net long-term debt	$ 1,200,216			$ 1,448,845

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

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 are as follows:

(in thousands of dollars)	2003	2002
Long-term debt at beginning of year	$ 186,616	$ 182,958
Interest earned during the year	13,322	3,658
Payments during the year	(5,531)	–
	194,407	186,616
Lease payments due in one year	(17,212)	(5,531)
Net long-term debt at end of year	$ 177,195	$ 181,085

2002 SFO Extension 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 San Francisco International Airport Extension project ("SFO Extension project"). The proceeds are to be 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 bonds are limited obligations of ABAG payable solely from and secured 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 secured 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, 2003, the bonds outstanding amount to $56,715,000, with interest rates ranging from 2.25% to 5.0% with maturities from August 1, 2006 to August 1, 2032.

Defeased Bonds
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 in-substance 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.

In July 2001, the District defeased a portion of 1991 and 1995 Sales Tax Revenue Bonds amounting to $41,175,000 by placing part of the proceeds of the 2001 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 in-substance debt defeasance, and the defeased 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. The advance refunding was made to achieve budgetary savings by extending debt service requirements further into the future and to take advantage of lower interest rates.

The District deferred interest expenses of $9,143,000 related to the defeasance from the proceeds of the 1998 and 2001 Sales Tax Revenue Bonds. These deferred charges are amortized over the life of the defeased bonds. Amortization expense on these deferred charges was $994,000 and $742,000 for fiscal years 2003 and 2002, 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 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, 2003, the District has a reserve for estimated arbitrage liabilities amounting to $2,683,000 ($1,847,000 in 2002), which is included in accounts payable and other liabilities in the Statements of Net Assets.

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.

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, 2003, consist of funds received for the SFO Extension project costs from SamTrans for $72,000,000 and MTC for $16,500,000 and $19,645,000 from MTC for the SFO Extension project's temporary cash requirements. The District loaned $50,000,000 of its own funds to assist with the financing of the SFO Extension project costs. The terms and conditions of the MOU provide that the loans for project costs will be repaid, without interest, from the future net operating surplus generated by the San Francisco International Airport Extension. Such repayments will commence after SamTrans' capital contribution to the District's Warm Springs Extension project is fully paid from future net operating surplus. MTC's loan for the project's temporary cash requirements will be repaid when the District receives the last Federal Full Funding Grant allocation for the SFO Extension project.

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 International Airport Extension project. 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. 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. During the year, $17 million of the bond due in fiscal year 2008 was paid in advance. At June 30, 2003, the bonds outstanding amount to $368,035,000, with interest rates ranging from 3.375% to 5.0% with maturities from June 15, 2004 to June 15, 2009.

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. This 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, the District has recorded the payment to the Payment Undertaker as a receivable 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.

8. State and Local Financial Assistance

The District receives local operating and capital assistance from Transportation Development Act Funds ("TDA"). For the year ended June 30, 2003, TDA operating assistance was $357,000 ($877,000 in 2002). These funds were received from the County of Alameda. There was no TDA capital assistance received in fiscal years 2003 and 2002.

The District receives state operating and capital assistance from State Transit Assistance Funds ("STA"). In 2003, the District did not receive financial assistance from STA. In 2002, $376,000 was received from STA, all of which was used for operating assistance. 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 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. For the fiscal year 2003, $1,421,800 was received as of June 30, 2003 and an additional amount of $208,802 after June 30, 2003 from Alameda County Transportation Improvement Authority (ACTIA), the administrator of Measure B funds. There were no Measure B funds received in fiscal year 2002.

The financial assistance from San Mateo County Transit District ("SamTrans") relates to the reimbursement of a portion of the operating costs in excess of fare revenues identified to the San Francisco International Airport Extension, which covers the Colma, South San Francisco, San Bruno, San Francisco International Airport and Millbrae stations. The San Francisco International Airport Extension started its revenue operations on June 22, 2003. For fiscal year ended June 30, 2003, the District recognized $604,000 in operating financial assistance from SamTrans.

9. Employees' Retirement Plan

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 2,519 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 Fund 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, CalPers' 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

Debt Repayments

The following is a schedule of long-term debt principal payments required as of June 30, 2003:

(in thousands of dollars)

Year ending June 30:	1990 Bonds	1991 Bonds	1995 Bonds	1998 Bonds	1999 Bonds	2001 Bonds	TFA Bridge Toll Notes	Construction Loans	FTA Capital Grant Bonds	Lease/ Leaseback Obligation	2002 SFO Extension Premium Fare Bonds	Total
2004	$ 9,550	$ –	$ 2,120	$ 915	$ 1,785	$ 2,685	$ 7,680	$ –	$ 58,495	$ 17,212	$ –	$ 100,442
2005	9,615	–	2,210	3,860	1,860	–	8,075	19,645	61,295	6,716	–	113,276
2006	–	–	2,315	13,775	1,940	–	8,495	–	64,210	51,473	–	142,208
2007	–	–	2,435	14,675	2,025	–	21,785	–	46,330	39,362	550	127,162
2008	–	–	2,555	15,415	2,115	–	–	–	34,040	12,812	570	67,507
2009-2013	28,157	–	11,510	57,665	12,170	7,665	–	–	103,665	42,380	3,990	267,202
2014-2018	–	–	13,945	36,605	15,595	32,830	–	–	–	124,306	6,455	229,736
2019-2023	–	–	14,830	70,220	20,165	22,445	–	–	–	42,725	9,950	180,335
2024-2028	–	–	–	107,920	26,330	28,825	–	–	–	–	14,580	177,655
2029-2033	–	–	–	24,915	34,405	37,015	–	–	–	–	20,620	116,955
2034-2037	–	–	–	–	16,555	37,185	–	–	–	–	–	53,740
Thereafter	–	–	–	–	–	–	–	88,500	–	–	–	88,500
	$ 47,322	$ –	$ 51,920	$ 345,965	$ 134,945	$ 168,650	$ 46,035	$ 108,145	$ 368,035	$ 336,986	$ 56,715	1,664,718

Less:	
Unamortized bond premium	12,654
Unamortized bond discount and issuance cost	(25,844)
Future imputed interest on lease/leaseback obligation	(142,579)
Current portion of long-term debt	(100,442)
Net long-term debt portion	$1,408,507

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, 2003 are summarized as follows:

(in thousands of dollars)	SFO Extension Project	Other Capital Projects
Total approved project costs	$ 1,347,230	$ 642,305
Total approved federal funds	$ 471,726	$ 516,817
Less: cumulative amounts earned	742,622	429,462
Amounts below (in excess of) approved federal funds	$ (270,896)	$ 87,355

The SFO 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.

Funded Status of the Safety Plan

(in thousands of dollars)

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
June 30, 2000	$ 65,225	$ 79,636	$ (14,411)	122.1%	$ 11,826	(121.868)%
June 30, 2001	$ 70,958	$ 83,306	$ (12,348)	117.4%	$ 12,385	(99.700)%
June 30, 2002	$ 78,154	$ 80,207	$ (2,053)	102.6%	$ 12,753	(16.100)%

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, 802 retirees (711 in 2002) are provided this benefit. The District paid up to $405,000 and $264,000 per month for health insurance premiums for the retirees and surviving spouses during fiscal years 2003 and 2002, respectively. 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 $3,986,000 in 2003 ($2,468,000 in 2002).

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 deferred compensation plan to conform to the Federal Small Business Protection Act of 1996 ("SBPA"). The amendment provided for the creation of a third party 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 and are not included as part of the District's assets in the accompanying financial statements.

11. Money Purchase Pension Plan

Most District employees participate in the Money Purchase Pension Plan, which is a supplemental retirement defined contribution plan. In January 1981, the District's employees elected to withdraw from the Federal Social Security System ("FICA") and established the Money Purchase Pension Plan. The District contributes an amount equal to 6.65% of eligible employees' annual compensation (up to $29,700 after deducting the first $133 paid during each month) up to a maximum annual contribution of $1,868. Non-represented employees receive an additional 1.627% of annual regular earnings up to $160,000. Additionally, effective October 1, 2001, most employees receive 3.5% of their wages subject to certain funding thresholds in the CalPers Retirement Plan. 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, 2003 and 2002 were $6,933,000 and $7,253,000, respectively. The Money Purchase Pension Plan assets at June 30, 2003 and 2002 (excluded from the accompanying financial statements) per the plan administrator's unaudited report were $233,078,000 and $221,360,000, respectively. At June 30, 2003, there were approximately 294 participants receiving benefits under this plan.

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, 2003 to cover normal cost and to amortize the unfunded actuarial accrued surplus approximated 7.051% (7.051% in 2002) and 15.050% (13.557% in 2002) 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 2003 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, 2003 and 2002 was $213,902,000 and $210,200,000, respectively. The District's 2003 and 2002 payroll for all employees was $230,839,000 and $229,032,000, 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. Effective October 1, 2001, due to the 2001 Collective Bargaining Agreements and because of the superfunded status of the Fund, all employees, except sworn police officers, were not required to make contributions to the Fund.

Since the District has made the actuarially-determined required contributions since 1988, the pension liability or asset was zero at June 30, 2003, 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 of dollars)	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Miscellaneous Plan:	June 30, 2001	$ 11,370	100%	$ —
	June 30, 2002	$ 12,203	100%	$ —
	June 30, 2003	$ 14,801	100%	$ —
Safety Plan:	June 30, 2001	$ 1,692	100%	$ —
	June 30, 2002	$ 1,803	100%	$ —
	June 30, 2003	$ 2,026	100%	$ —

The required contribution was determined as part of an actuarial valuation performed as of June 30, 2002, the latest available for the Fund. The significant actuarial assumptions used in the 2002 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, 3.75% 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, 2002 (the latest available for the Fund) is summarized as follows:

Funded Status of the Miscellaneous Plan

(in thousands of dollars)

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
June 30, 2000	$ 655,888	$ 947,519	$ (291,631)	144.5%	$ 172,132	(169.423)%
June 30, 2001	$ 722,298	$ 991,464	$ (269,166)	137.3%	$ 184,513	(149.970)%
June 30, 2002	$ 801,662	$ 944,685	$ (143,023)	117.8%	$ 196,260	(72.900)%

OPERATING FUNDS *(in thousands of dollars)*

	2003		2002	
SOURCES OF FUNDS				
Transactions and Use Sales Tax	$ 108,223	28.25%	$ 116,070	29.87%
Passenger Fares (including Paratransit Revenue)	191,386	49.96%	193,701	49.84%
Property Tax	20,253	5.29%	18,713	4.82%
Other:				
Investment Income and Other Operating Revenue	19,293	5.03%	20,909	5.37%
Construction Funds Capitalized Costs	41,515	10.84%	37,986	9.77%
Regional Financial Assistance: Local and State	2,419	0.63%	1,253	0.33%
Total Other	63,227	16.50%	60,148	15.47%
Total	$ 383,089	100.00%	$ 388,632	100.00%
USES OF FUNDS				
Maintenance	$ 135,938	35.49%	$ 134,275	34.55%
Transportation	105,155	27.45%	101,400	26.09%
General and Administrative	94,900	24.77%	97,708	25.14%
Police Services	28,135	7.34%	27,446	7.06%
Construction and Engineering	16,654	4.35%	15,526	4.00%
Other:				
Capital Designation	2,307	0.60%	12,311	3.17%
Increase (Decrease) in Operating Funds	0	0.00%	(34)	-0.01%
Total Other	2,307	0.60%	12,277	3.16%
Total	$ 383,089	100.00%	$ 388,632	100.00%

CAPITAL FUNDS *(in thousands of dollars)*

	2003		2002	
SOURCES OF FUNDS				
District	$ 176,155	57.50%	$ 268,724	53.26%
Federal	99,948	32.63%	217,499	43.11%
State	18,928	6.18%	9,788	1.94%
Local	11,316	3.69%	8,538	1.69%
Total	$ 306,347	100.00%	$ 504,549	100.00%
USES OF FUNDS				
Construction:				
Line	$ 195,520	63.82%	$ 262,700	52.07%
Systemwide	31,916	10.42%	45,276	8.97%
Support Facilities	316	0.10%	405	0.08%
Total	$ 227,752	74.34%	308,381	61.12%
Equipment:				
Train Control	8,011	2.62%	7,478	1.48%
Communications	25	0.01%	29	0.01%
Transit Vehicles	46,552	15.20%	159,146	31.54%
Automatic Fare Collections	21,764	7.10%	17,049	3.38%
Management Information Systems	496	0.16%	811	0.16%
Other Equipment	1,297	0.42%	4,381	0.87%
Total	78,145	25.51%	188,894	37.44%
Studies and Other	450	0.15%	7,274	1.44%
Total	$ 306,347	100.00%	$ 504,549	100.00%

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

12. Board of Directors' Expenses

The total Directors expenses, consisting of travel and other business related expenses for the years ended June 30, 2003 and 2002 amounted to $26,000 and $32,000, 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 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, 2003 are as follows:

(in thousands of dollars)	**Operating Leases**
2004	$ 5,800
2005	4,676
2006	7,197
2007	7,912
2008	7,768
Thereafter	138,075
Total minimum payments	$ 171,428

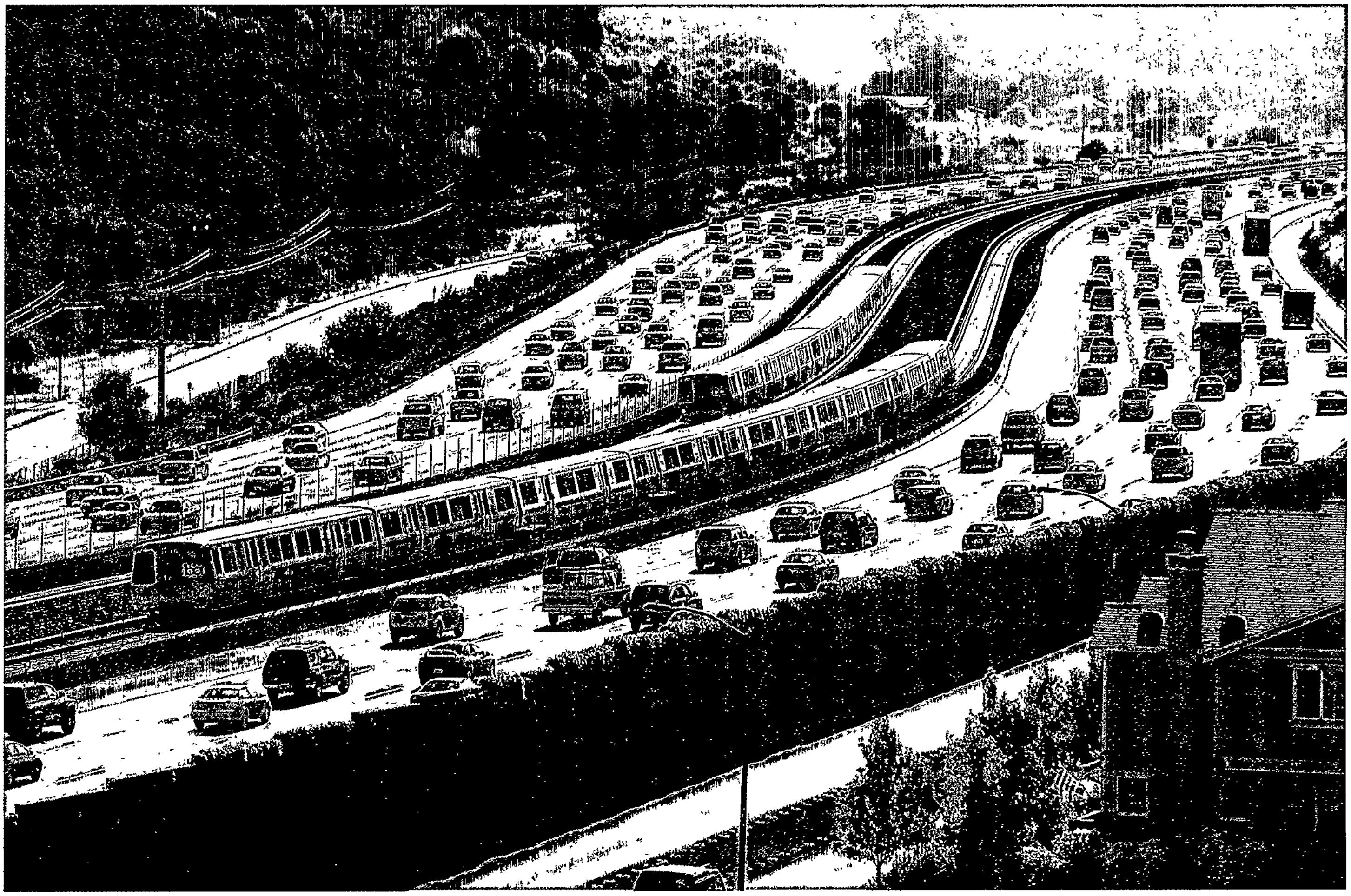
Rent expense under all operating leases was $4,743,000 and $4,307,000 for the years ended June 30, 2003 and 2002, respectively.

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 $2,000,000 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, 2003 and 2002, the balances of the deferred gain were $1,217,000 and $1,272,000, respectively. The balances of the receivable and the liability were $23,658,000 and $26,812,000 as of June 30, 2003 and 2002, 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 $14,967,000 and $13,114,000 as of June 30, 2003 and 2002, respectively.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT



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 to Section 28770, Public Utilities Code of the State of California.

San Francisco Bay Area Rapid Transit District (BART)
Headquarters in Oakland, California
800 Madison Street, P.O. Box 12688
Oakland, CA 94604-2688
510/464-6000

Board of Directors - Fiscal Year 2003

Peter W. Snyder	President - Dublin
James Fang	Vice President - San Francisco

Members of the Board

Dan Richard	1st District • Orinda
Joel Keller	2nd District • Antioch
Roy Nakadegawa	3rd District • Berkeley
Carole Ward Allen	4th District • Oakland
Peter W. Snyder	5th District • Dublin
Thomas M. Blalock	6th District • Fremont
Lynette Sweet	7th District • San Francisco
James Fang	8th District • San Francisco
Tom Radulovich	9th District • San Francisco

Board-Appointed Officers

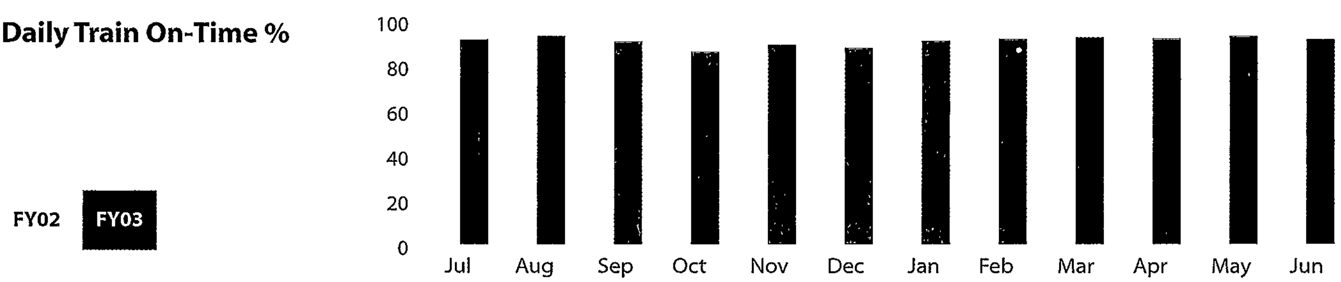
Thomas E. Margro	General Manager
Sherwood Wakeman	General Counsel
Scott Schroeder	Controller/Treasurer
Ken Duron	District Secretary

PERFORMANCE HIGHLIGHTS

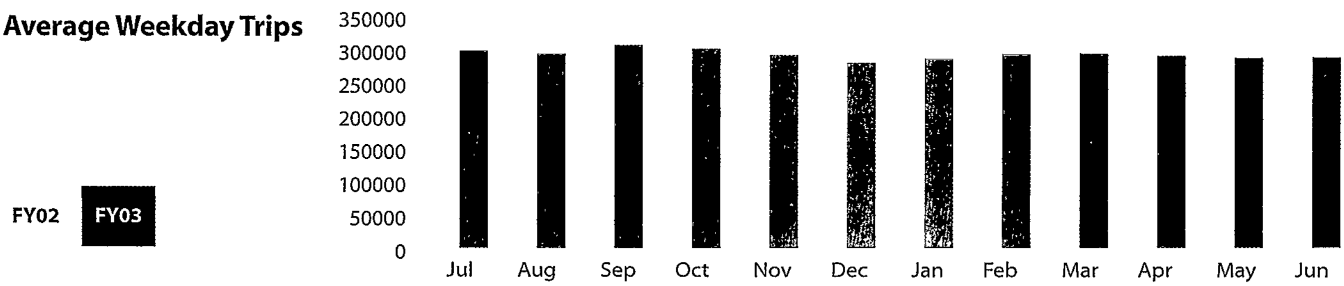
	2003	2002
Rail Ridership		
Average passenger trips	87,380,764	90,796,756
Average weekday trips	295,158	310,725
Average trip length	12.96	12.96
Annual passenger miles	1,145,851,900	1,176,305,514
Daily train on-time performance	91.8%	92.8%
System utilization	29.1%	30.8%
End-of-period ratios[1]		
Peak patronage	57%	58%
Off-peak	43%	42%
Operations		
Annual revenue car miles	58,880,681	58,437,369
Passenger accidents/million passenger trips	5.54	8.90
Passenger crimes/million passenger trips	50.57	46.79
Financial		
Net passenger revenue	$ 191,385,802	$ 193,701,173
Other operating revenue (Including investment earnings from Operating Fund)	$ 19,293,511	$ 20,908,627
Total operating revenue	$ 210,679,313	$ 214,609,800
Net operating expense (excluding depreciation)	$ 339,267,280	$ 338,368,891
System farebox ratio		
Net passenger revenue/net operating expense	56.4%	57.2%
System operating ratio		
Total operating revenue/total operating expense	62.1%	63.4%
Net rail passenger revenue/passenger mile	$ 0.167	$ 0.164
Rail operating cost/passenger mile	28.3¢	27.7¢
Net average rail passenger rail including FastPass	$ 2.18	$ 2.13

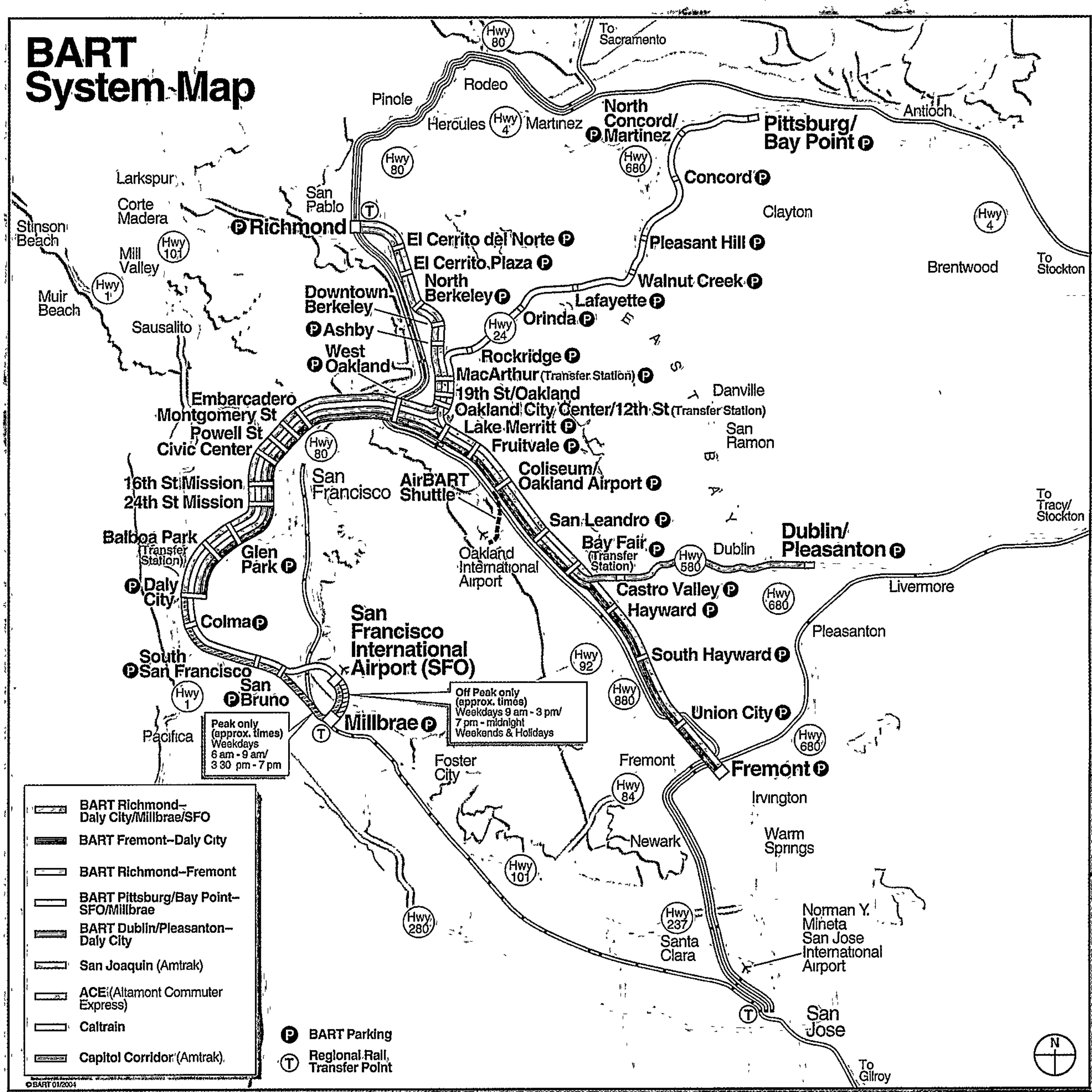
Note: 1. Six hour peak period (three hours a.m. and three hours p.m.)

Daily Train On-Time %



Average Weekday Trips





BART

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