THIS PRINT COVERS CALENDAR ITEM NO. : 14

SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY

DIVISION: Finance and Information Technology

BRIEF DESCRIPTION:

Presentation and discussion of the SFMTA's Fiscal Year 2016 year-end financial audit.

SUMMARY:

- KPMG has audited SFMTA's financial statements for the year ended June 30, 2016, and issued the report on October 21, 2016. The audited financial statements included a report on internal control over financial reporting, compliance, and other matters in accordance with Government Auditing Standards.
- The SFMTA audited financial statements are a component of the City's financial statement.
- The audit includes new Government Standard requirements related to accounting and financial reporting on fair value measurement and pension issues in 2016.
- There were no audit findings.
- The audit is available on the SFMTA website: https://www.sfmta.com/about-sfmta/investor-relations/investor-relations-overview

ENCLOSURES:

- SFMTA's FY2016 Financial Statements

APPROVALS:		**DATE**
DIRECTOR	[signature]	11/21/16
SECRETARY	R. Boomer	11/21/16

ASSIGNED SFMTAB CALENDAR DATE: December 6, 2016

PURPOSE

To present the results of FY2016 financial audits performed by our independent auditor.

STRATEGIC PLAN GOALS AND TRANSIT FIRST POLICY PRINCIPLES

The financial audit supports all the goals of the Strategic Plan and the Transit First Policy Principles in ensuring resources are available and are managed effectively to meet these goals and principles:

> Goal 1. Create a safer transportation experience for everyone.
> Goal 2. Make transit, walking, bicycling, taxi, ridesharing & carsharing the preferred means of travel.
> Goal 3. Improve the environment and quality of life in San Francisco.
> Goal 4. Create a workplace that delivers outstanding service.

DESCRIPTION

The SFMTA's annual financial audit is conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that an outside auditor obtain reasonable assurance about whether the financial statements are free from material misstatement. It is the main financial document used by various parties including granting agencies, the financial community and other stakeholders to review SFMTA's financial management and financial condition.

The SFMTA financial audit is a component of the City's annual comprehensive annual financial report (CAFR). KPMG completed the audit and there are no findings.

STAKEHOLDER ENGAGEMENT

This document is shared widely with both internal and external parties and its preparation was coordinated with the City's external financial auditor and the City Controller.

ALTERNATIVES CONSIDERED

None.

FUNDING IMPACT

None.

ENVIRONMENTAL REVIEW

On November 3, 2016, the SFMTA, under authority delegated by the San Francisco Planning

Department, determined that the Fiscal Year 2016 Financial Audit Report Presentation is not defined as a “project” under the California Environmental Quality Act (CEQA) pursuant to Title 14 of the California Code of Regulations Sections 15060(c) and 15378(b). A copy of the CEQA determination is on file with the Secretary to the SFMTA Board of Directors and is incorporated herein

OTHER APPROVALS RECEIVED OR STILL REQUIRED

The City Attorney’s Office has reviewed this item.

RECOMMENDATION

The SFMTA Board of Directors receive a presentation on the Fiscal Year 2016 financial audit.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Financial Statements
and Supplemental Schedules

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Table of Contents

Independent Auditors' Report

The Honorable Mayor, Board of Supervisors,
and San Francisco Municipal Transportation Agency Board of Directors
City and County of San Francisco, California:

Report on the Financial Statements

We have audited the accompanying financial statements of the San Francisco Municipal Transportation Agency (SFMTA), an enterprise fund of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial information of the City of San Francisco Uptown Parking Corporation, the City of San Francisco Japan Center Garage Corporation, and the City of San Francisco Portsmouth Plaza Parking Corporation, which reflect total assets constituting 0.80% and 0.91%, respectively, of SFMTA's total assets at June 30, 2016 and 2015, and total revenue constituting 5.28% and 3.91%, respectively, of SFMTA's total revenue for the years then ended. Such financial information was audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for SFMTA, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the City of San Francisco Portsmouth Plaza Parking Corporation, commissioned by the Department of Recreation and Parks, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the SFMTA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SFMTA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of SFMTA as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1, the financial statements of SFMTA are intended to present the net position and the changes in net position and cash flows of only that portion of the City that is attributable to the transactions of SFMTA. They do not purport to, and do not, present fairly the net position of the City as of June 30, 2016 and 2015, the changes in its net position, or, where applicable, the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of New Accounting Pronouncement

As discussed in Note 2 to the financial statements, effective July 1, 2015, the SFMTA adopted *Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application and No. 82 Pension Issues-An Amendment of GASB Statements No. 67, No. 68 and No. 73.*

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4–14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Schedules

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the SFMTA's basic financial statements. The accompanying supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016 on our consideration of the SFMTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SFMTA's internal control over financial reporting and compliance.

(signed) KPMG LLP

San Francisco, California
October 21, 2016

We offer readers of the San Francisco Municipal Transportation Agency's (SFMTA) financial statements this narrative overview and analysis of the financial activities of the SFMTA for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with information contained in the financial statements. All amounts, unless otherwise noted, are expressed in thousands of dollars.

Financial Highlights

The SFMTA's assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources by $3,020,957 and $2,542,700 as of fiscal years ended June 30, 2016 and 2015, respectively.

The SFMTA's total net position increased by $478,257 in 2016 and decreased by $143,360 in 2015 over the prior fiscal year.

Total net investment in capital assets were $2,938,712 and $2,529,275 at June 30, 2016 and 2015, respectively, an increase of 16.2% and an increase of 5.5% over the balance of $2,529,275 and $2,396,595 at June 30, 2015, and 2014, respectively.

Overview of the Financial Statements

This discussion and analysis section is intended to serve as an introduction to the SFMTA's financial statements. The SFMTA oversees transit (Muni), bike and pedestrian programs, taxis, parking and traffic control operations in the City. The SFMTA applies Governmental Accounting Standards Board (GASB) Statements. The SFMTA is an integral part of the City and County of San Francisco, California (the City) and these financial statements are included in the City's Comprehensive Annual Financial Report. More information regarding the SFMTA's organization and the basis of presentation are contained in notes 1 and 2(a) (found on page 20).

The statements of net position (found on pages 15 and 16) presents information on all of the SFMTA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The net position is the residual of all other four elements presented in the statement of financial position. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the SFMTA. The information of the SFMTA's financial position is presented as of June 30, 2016 and 2015.

The statements of revenue, expenses, and changes in net position (found on page 17) present information showing how the SFMTA's net position changed during the fiscal years ended June 30, 2016 and 2015. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenue and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The statements of cash flows (found on pages 18 and 19) presents information about the cash receipts and payments of the SFMTA during the fiscal years ended June 30, 2016 and 2015. This statement shows the effects on the SFMTA's cash balances of cash flows from operating, noncapital financing, capital and related financing, and investing activities. When used with related disclosures and information in the other financial statements, the information in the statements of cash flows helps readers assess the SFMTA's ability to generate net cash flows, its ability to meet its obligations as they come due, and its needs for external financing.

(Dollars in thousands, unless otherwise noted)

Notes to Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 20 through 48 of this report.

Other Information

The supplemental schedules found on pages 49 through 66 of this report are presented for the purpose of providing additional analysis and are not a required part of the financial statements.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the SFMTA, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $3,020,957 at the close of the most recent fiscal year.

Condensed Summary of Net Position

June 30, 2016, 2015, and 2014

		2016	2015 (Restated)	2014
Assets:				
Total current assets	$	1,083,976	1,074,180	969,807
Total restricted assets		86,597	52,475	36,333
Capital assets, net		3,147,877	2,747,219	2,542,048
Total assets	$	4,318,450	3,873,874	3,548,188
Deferred outflows of resources	$	98,333	79,870	—
Liabilities:				
Total current liabilities	$	390,861	388,033	383,851
Total noncurrent liabilities		900,659	792,967	460,540
Total liabilities	$	1,291,520	1,181,000	844,391
Deferred inflows of resources	$	104,306	230,044	17,737
Net position:				
Net investment in capital assets	$	2,938,712	2,529,275	2,396,595
Restricted		85,643	51,429	35,065
Unrestricted		(3,398)	(38,004)	254,400
Total net position	$	3,020,957	2,542,700	2,686,060

Fiscal Year 2016

During fiscal year 2016, current assets increased by $9.8 million or 0.9%. This increase was in receivables of $63.2 million, $6.6 million in inventories and $0.3 million in prepaid asset offset by decrease in deposits and investments of $60.3 million. The increase is mainly from capital project billings to grantors, and procurement of maintenance parts inventory.

The restricted assets increased by $34.1 million or 65.0%, attributable to more collections levied from Transit Impact Development fees (TIDF) of $34.8 million offset by slight decrease of $0.2 million in funds held by the bond trustee and $0.5 million in receivable from development fees.

The capital assets increased by $400.7 million or 14.6%, mainly from construction in progress account of $387.7 million for the Central Subway Project, and procurement of new revenue vehicles. The remaining $13.0 million is from various infrastructure work and street improvement projects net of assets disposed and depreciation.

The SFMTA's net position increased by 18.8% compared to the prior year. The increase in net position is attributable to increases in nonoperating revenue, capital contributions and transfers, offset by decreases in operating revenues and increase in operating expenses.

The largest portion of the SFMTA's net position ($2,938,712 as of June 30, 2016) reflects its net investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in progress). The value of these assets of $4,920,534 is offset by accumulated depreciation of $1,772,657 and related debt of $209,165. More information can be found in note 5 on page 27. The SFMTA uses these assets to provide services.

The remainder of the SFMTA's net position is composed of restricted and unrestricted net assets. The restricted assets include deposits, investments, and receivables.

Fiscal Year 2015

During fiscal year 2015, current assets increased by $104.4 million or 10.8%. This increase was in unrestricted cash and investments of $167.3 million, and $11.3 million in inventories offset by decrease in receivables of $74.2 million. The increase is mainly due from higher City general fund allocation, collections from grantors, and procurement of maintenance parts inventory.

The restricted assets increased by $16.1 million or 44.4%, is attributable to more collection in Transit Impact Development Fee (TIDF) of $10.6 million and increase of $5.5 million held by the trustee from the issuance of new revenue bonds in fiscal year 2015.

The capital assets increased by $205.2 million or 8.1%, mainly from construction in progress account of $203.9 million for the Central Subway Project, Central Control System Upgrade, and Rail Replacement Project. The remaining $1.3 million is from the acquisition of various equipments and nonrevenue vehicles.

The SFMTA's net position decreased by 5.3% compared to the prior year. The decrease in net position is attributable to decreases in operating revenue, and capital contributions, offset by increases in nonoperating revenues, transfers, decrease in operating expenses, and restatement reduction to the beginning net position with the implementation of GASB Statement No. 68 on pensions.

The largest portion of the SFMTA's net position ($2,529,275 as of June 30, 2015) reflects its net investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in progress). The value of these assets of $4,428,643 is offset by accumulated depreciation of $1,681,424 and related debt of $217,944. More information can be found in note 5 on page 27. The SFMTA uses these assets to provide services.

(Dollars in thousands, unless otherwise noted)

The remainder of the SFMTA's net position is composed of restricted and unrestricted net assets. The restricted assets include deposits, investments, and receivables. The unrestricted net asset reflects the GASB Statement No. 68 restatement adjustment of $429.4 million and $8.6 million from GASB Statement No. 82 implementation.

Condensed Summary of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016, 2015, and 2014

		2016	2015 (Restated)	2014
Revenues:				
Total operating revenues	$	499,234	504,625	527,268
Total nonoperating revenues, net		206,529	166,761	163,973
Capital contributions:				
Federal		288,481	176,315	304,351
State and others		131,257	117,035	141,588
Total capital contributions		419,738	293,350	445,939
Net transfers		452,990	341,331	316,891
Total revenues and net transfers		1,578,491	1,306,067	1,454,071
Expenses:				
Total operating expenses		1,100,234	1,019,981	1,032,437
Change in net position		478,257	286,086	421,634
Net position at beginning of year:				
Beginning of year, as previously reported		2,542,700	2,686,060	2,264,426
Cumulative effect of accounting changes		—	(429,446)	—
Beginning of year as restated		2,542,700	2,256,614	2,264,426
Total net position – ending	$	3,020,957	2,542,700	2,686,060

Fiscal Year 2016

Total revenue and net transfers for the year ended June 30, 2016 were $1,578,491, an increase of $272,424 or 20.9%, compared to the prior fiscal year. This is due to increases in nonoperating revenues, capital contributions and net transfers, offset by decreases in operating revenues.

Operating revenue decreased by $5,391 or 1.1% compared to prior year. The decrease is mainly due to lower passenger fares revenue by $7,954 or 3.7%, taxi revenues by $6,160 or 64.5%, and slight decrease in rental income by $788 or 9.2%. These decreases are offset by an increase of $6,062 or 4.8% in parking fees, advertising revenue by $1,328 or 6.5%, permits revenue by $1,223 or 9.6%, parking fines and penalties by $630 or 0.7%, and charges for services by $268 or 1.2%. The decrease in taxi revenue is due to fewer sales of taxi medallions and waiver of certain taxi fees in fiscal year 2016. Passenger fares decrease is attributable to the implementation of the Free Fares for low and moderate income youth, senior and disabled patrons.

The nonoperating revenue includes operating support received from other sources, primarily federal and state operating grants, development fees, and interest income. Nonoperating revenue increased by $39,768 or 23.8%, mostly from development fees and in amortized portion of the lease leaseback benefits, which were offset by lower interest and investment income, decrease in operating grants, and loss on disposal of assets.

Capital contributions consist principally of funds received or receivable from federal, state, and local grant agencies that provide funding for many of the SFMTA's capital projects. There was an increase in capital expenditures incurred and billable to the grantors in fiscal year 2016 compared to the prior year mostly related to Central Subway, Revenue Vehicles procurement and other huge projects. This resulted in the significant increase in capital contribution by $126,388 or 43.1% when compared to fiscal year 2015.

Net transfers increased by $111,659 or 32.7% in fiscal year 2016 due to the increase in the City's General Fund baseline subsidy and Population-based allocation as well as from proceeds received from the City's General Obligation Bond to support various transportation and road improvement projects.

Total operating expenses for the year ended June 30, 2016 were $1,100,234 an increase of $80,253 or 7.9% compared to the prior year. The resulting net increase comprises trend changes from various expense categories. Personnel service costs increase of $52,538 or 8.4% is attributable mainly to COLA increase and increase in hiring during fiscal year 2016 as well as increases in workers' compensation and pension costs. Contractual services increased by $23,073 or 22.7% and materials and supplies increased by $8,374 or 11.5% were attributable to revenue vehicle overhaul and major repairs completed during this fiscal year. Depreciation expense increased by $6,959 or 5.5% with more assets capitalized. Services from other City departments increased by $9,157 or 17.3% mainly from share of cost on City-wide financial system replacement project and City Attorney services. The offsetting decreases are in the following categories: general and administrative and other operating expenses category. General and administrative costs net decrease is $1,037 or 2.4%. Other operating expenses decreased by $18,811 or 698.0% with more cost recovery and less noncapitalizable cost compared to prior year.

Fiscal Year 2015

Total revenue and net transfers for the year ended June 30, 2015 were $1,306,067, a decrease of $148,004 or 10.2%, compared to the prior fiscal year. This is due to decreases in operating revenue and capital contributions offset by slight increase in nonoperating revenue and net transfers.

Operating revenue decreased by $22,643 or 4.3% compared to prior year. The decrease is mainly due to lower taxi medallion revenue by $25,815 or 73.0%, parking fees by $2,967 or 2.3%, and parking fines and penalties by $2,057 or 2.2%; offset by total increase of $1,644 or 0.8% in passenger fares, advertising revenue by $898 or 4.6%, charges for services by $4,166 or 23.6%; rental income by $1,030 or 13.7%, and permits revenue by $458 or 3.7%. The taxi medallion revenue decrease is due to fewer sales of taxi medallions and waiver of certain taxi fees in fiscal year 2015. For parking revenues, the decrease is mostly attributable to reduction in parking meter payments. The increase in charges for services is mainly due to one-time contribution to subsidize the Free Fares for low and moderate income youth.

The nonoperating revenue includes operating support received from other sources, primarily federal and state operating grants, transit impact development fees, and interest income. Nonoperating revenue increased by $2,788 or 1.7%, mostly from operating grants, which were offset by lower interest and investment income, decrease in amortized portion of the lease leaseback benefits, and increase in interest expense.

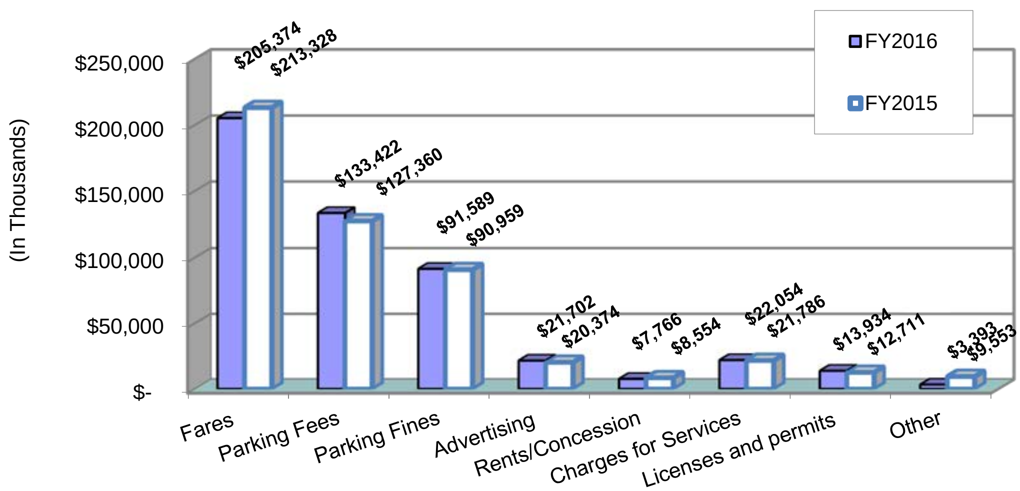
Capital contributions consist principally of funds received or receivable from federal, state, and local grant agencies that provide funding for many of the SFMTA's capital projects. There was a decrease in capital expenditures incurred and billable to the grantors in fiscal year 2015 compared to the prior year due to federal grants mostly related to Central Subway and other huge projects completed in the prior year. This resulted in the significant decrease in capital contribution by $152,589 or 34.2% when compared to fiscal year 2014.

Net transfers increased by $24,440 or 7.7% in fiscal year 2015 mostly due to the increase in the City's General Fund baseline allocation of $33,569 offset by more funding transfers mostly to the City's Street Improvement fund by $9,129 compared to prior year.

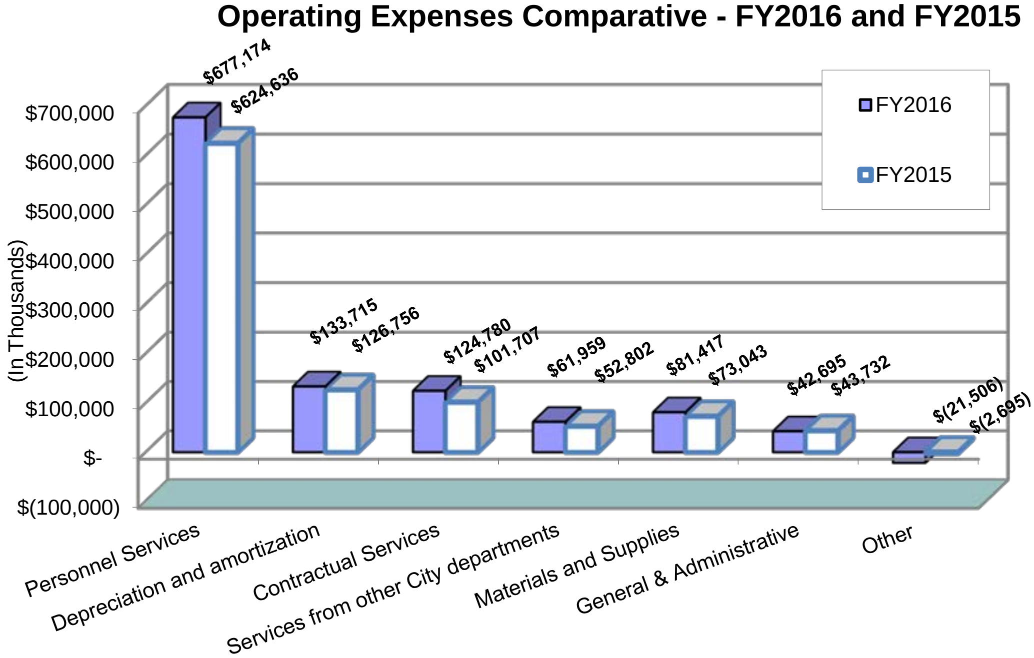
Total operating expenses for the year ended June 30, 2015 were $1,019,981, a decrease of $12,456 or 1.2% compared to the prior year. The resulting net decrease comprises trend changes from various expense categories. The increase in contractual services by $8,567 was attributable to higher rental costs and software license payments during this fiscal year compared to prior year. Depreciation expense increased by $5,802 or 4.8% with more assets capitalized. Other operating expense category increased by $10,384 or 79.4% with more noncapitalizable cost and increase in paratransit costs than prior year. The offsetting decreases are in the following categories: personnel services, materials and supplies, general and administrative, and services to other departments. Personnel service costs decrease by $4,213 or 0.7%, attributable to reduction of retirement cost associated with the GASB Statement No. 68 implementation that took effect in fiscal year 2015. General and administrative costs decreased by $14,552 or 25.0%, mainly due to lower judgment and claim costs compared to prior year. Materials and supplies decreased by $14,289 or 16.4%, and services by other departments decreased by $4,155 or 7.3% for police security work.

The charts below illustrate the SFMTA's operating revenue by source and expenses by category for fiscal year 2016 and fiscal year 2015:

Operating Revenue Comparative - FY2016 and FY2015



Operating Expenses Comparative - FY2016 and FY2015



Capital Assets and Debt Administration

(Dollars in thousands, unless otherwise noted)

Capital Assets

The SFMTA's investment in capital assets amounts to $3,147,877 net of accumulated depreciation as of June 30, 2016. This investment includes land, building structures and improvements, equipment, infrastructure, intangibles, and construction in progress. The increase in capital assets is $400,658 or 14.6%, compared to the previous year. This increase is attributed to continued construction for both enhancement and state of good repair projects as well as acquisition of new revenue vehicles.
The SFMTA's investment in capital assets amounts to $2,747,219 net of accumulated depreciation as of June 30, 2015. This investment includes land, building structures and improvements, equipment, infrastructure, intangibles, and construction in progress. The increase in capital assets is $205,171 or 8.1%, compared to the previous year. This increase is attributed to continued construction for both enhancement and state of good repair projects.

Summary of Capital Assets

	Balance, June 30, 2016	Balance, June 30, 2015	Balance, June 30, 2014
Capital assets not being depreciated:			
Land	$ 41,030	41,030	41,030
Construction in progress	1,346,257	1,035,096	849,447
Total capital assets not being depreciated	1,387,287	1,076,126	890,477
Capital assets being depreciated:			
Building structures and improvements	711,596	697,731	679,847
Equipment	1,561,455	1,413,277	1,326,667
Infrastructure	1,260,196	1,241,509	1,225,359
Total capital assets being depreciated	3,533,247	3,352,517	3,231,873
Less accumulated depreciation for:			
Building structures and improvements	291,541	274,731	258,927
Equipment	903,392	865,348	815,280
Infrastructure	577,724	541,345	506,095
Total accumulated depreciation	1,772,657	1,681,424	1,580,302
Total capital assets being depreciated, net	1,760,590	1,671,093	1,651,571
Total capital assets, net	$ 3,147,877	2,747,219	2,542,048

Construction in progress is made up of various transportation projects. The five projects that have the highest balances on June 30, 2016 are the Central Subway, Central Control System Upgrades, MUNI Forward infrastructure, Rail Replacement, and Radio Replacement.

(Dollars in thousands, unless otherwise noted)

Central Subway Project will link the existing 5.4 mile Phase I T-line, beginning at 4th Street and King Street, to BART, Muni Metro along Market Street, Union Square, and Chinatown to the north. Construction is in full swing in 2016; work to excavate the Chinatown Station headhouse has reached the future fare gate area, where construction of the entry archway has begun. Current activities include utility relocation, excavation of the headhouse, construction of the north access (emergency exit) shaft and construction of the Cross Cut Cavern.

Significant capital asset additions during fiscal year 2016 included:

- Infrastructure and Construction in progress – A majority of the $212.7 million costs incurred are for the new Central Subway Project, Central Control, rail replacement, transit lane and street improvement projects.
- Equipment – The cost of $283.1 million incurred during the fiscal year for the procurement of new light rail vehicles, trolley and motor buses to replace the old fleet, upgrade of communications system, traffic signals, radio replacement, and various information systems development.
- Building – The total of $36.2 million was incurred in fiscal year 2016 for Islais Creek facility improvement, transit operator convenience stations, elevator and escalator modernization, and upgrade of garage facilities in various locations.

Significant capital asset additions during fiscal year 2015 included:

- Infrastructure and Construction in progress – A majority of the $264.1 million costs incurred are for the new Central Subway Project, Rail Replacement, and transit lane improvements. These projects are to upgrade and reconfigure rail and tracks and roadway improvements to support transit.
- Equipment – The cost of $61.3 million incurred during the fiscal year for the enhancement and replacement of parking meters, traffic signals, bus and rail vehicle purchase, radio replacement, and information systems development.
- Building – The total of $6.2 million was incurred in fiscal year 2015 for Islais Creek facility improvement, operator restrooms, and upgrade of garages and parking lots in various locations.

Debt Administration

At June 30, 2016 and 2015, the SFMTA's bond debt obligations outstanding totaled $205,756 and $214,449, respectively. The following table summarizes the balances in debt between fiscal years 2016, 2015, and 2014:

		2016	2015	2014
Bonds payable	$	205,756	214,449	142,940

These amounts represent bonds secured by all revenue except for City General Fund allocations and restricted sources.

The SFMTA's total bond-related debt decreased by $8,693 or 4.1% as of June 30, 2016. The decrease represents principal payments and amortization of issuance premium in fiscal year 2016. During the fiscal year, The SFMTA carried underlying debt ratings of AA/Stable from Standard & Poor's and Aa2 from Moody's as of June 30, 2016.

The SFMTA's total bond-related debt increased by $71,509 or 50% as of June 30, 2015. The increase was primarily due to issuance of new revenue bonds. During the fiscal year, SFMTA issued a total of $70.6 million to finance a portion of the costs of various capital projects, including a deposit to the bond reserve fund and payment for portion of the cost of issuance.

More detailed information about the SFMTA's debt activity is presented in note 8 to the financial statements.

Leveraged Lease-Leaseback of Breda Vehicles

In April 2002, Muni entered into the leveraged lease-leaseback transaction for 118 Breda light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. The sublease provides Muni with an option to purchase the Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment. Muni received an aggregate of $388.2 million from the equity investors in full prepayment of the head lease. Muni deposited a portion of this amount into an escrow, and a portion was paid to a debt payment undertaker whose repayment obligation is guaranteed by Assured Guaranty Municipal Corp (AGM) as successor to Financial Security Assurance, Inc., a bond insurance company. Muni recorded $35.5 million in fiscal year 2002 for the difference between the amounts received of $388.2 million and the amounts paid to the escrows of $352.7 million. This amount was reclassified as the deferred inflow of resources and will be amortized over the life of the sublease unless the purchase option is executed.

In September 2003, Muni entered into a second leveraged lease-leaseback transaction for 21 items of Equipment. The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides Muni with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment. Muni received an aggregate of $72.6 million from the equity investors in full prepayment of the head lease in fiscal year 2003. Muni deposited a portion of this amount into an escrow, and a portion was paid to a debt payment undertaker whose repayment obligation is guaranteed by Assured Guaranty Municipal Corp (AGM) as successor to Financial Security Assurance, Inc., a bond insurance company. Approximately $67.5 million of this head lease payment was deposited into two escrows.

On May 24, 2016, Muni terminated leveraged lease transactions with respect to 28 items of Tranche 1 Equipment having an initial transaction value of $89.6 million and 21 items of Tranche 2 Equipment having an initial transaction value of $72.6 million. On June 27, 2016, Muni terminated leveraged lease transactions with respect to 31 items of Tranche 1 Equipment having an initial transaction value of $100.4 million.

More information can be found in note 15 of the financial statements.

FY 2017 and FY 2018 Budget

The SFMTA Board of Directors approved SFMTA's FY2017 and FY2018 two-year budget in April 2016 which was endorsed by the Board of Supervisors in July 2016. The SFMTA's final FY2017 and FY2018 Operating Budget is $1.18 billion and $1.25 billion, respectively. The FY2017 and FY2018 Capital Budget is $1,110 million and $859.8 million respectively reflecting technical changes.

The focus of this two-year operating budget is to continue addressing affordability and equity while making strategic investments that create a safer, more reliable, and resilient transportation system.

Requests for Information

This report is designed to provide a general overview of the SFMTA's finances for all those with a general interest. The financial statements and related disclosures in the notes to the financial statements and supplemental information are presented in accordance with U.S. generally accepted accounting principles. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, SFMTA, One South Van Ness Avenue, 3rd Floor, San Francisco, CA 94103.

Questions regarding the City and County of San Francisco or a request for a copy of the City's Comprehensive Annual Financial Report should be addressed to the Office of the Controller, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, CA 94102.

(1) Description of Reporting Entity

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors who are appointed by the Mayor and Board of Supervisors. The SFMTA financial statements include the entire San Francisco's (the City's) surface transportation network that encompasses pedestrians, bicycling, transit (Muni), traffic and off and on street parking, regulation of the taxi industry, and three nonprofit parking garage corporations operated by separate nonprofit corporations, whose operations are interrelated. All significant inter-entity transactions have been eliminated. The SFMTA is an integral part of the City, and these statements are reported as a major enterprise fund in the City's Comprehensive Annual Financial Report.

The SFMTA was established by voter approval of the addition of Article VIIIA to the Charter of the City (the Charter) in 1999 (Proposition E). The purpose of the Charter amendment was to consolidate all surface transportation functions within a single City department, and to provide the Transportation System with the resources, independence, and focus necessary to improve transit service and the City's transportation system. The voters approved additional Charter amendments: (1) in 2007 (Proposition A), which increased the autonomy of and revenue to the SFMTA; (2) in 2010 (Proposition G), which increased management flexibility related to labor contracts; (3) in 2014 (Proposition A) which provided $500 million in General Obligation Bonds for transportation and street infrastructure; and (4) in 2014 (Proposition B) which increases general fund allocation to SFMTA based on the City's population increase.

Muni is one of America's oldest public transit agencies, the largest in the Bay Area and seventh largest system in the United States. It currently has more than 222 million boardings annually. Operating historic streetcars, modern light rail vehicles, diesel buses, alternative fuel vehicles, electric trolley coaches, and the world famous cable cars, Muni's fleet is among the most diverse in the world.

The SFMTA's Sustainable Streets initiates and coordinates improvements to City's streets, transit, bicycles, pedestrians, and parking infrastructure. It manages 19 City-owned garages and 19 metered parking lots. In March 2009, the former Taxi Commission was merged with the SFMTA, which then has assumed responsibility for taxi regulation to advance industry reforms.

Three non-profit corporations provide operational oversight to four garages, namely Japan Center, Sutter-Stockton, Union Square and Portsmouth. Of these four garages, Portsmouth and Union Square garages are owned by the Recreation and Park Department but managed by the SFMTA. The activities of these nonprofit garages are accounted for in the parking garages account.

(2) Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

The activities of the SFMTA are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under this method, revenue is recorded when earned and expenses are recorded when the related liability is incurred. When both restricted and unrestricted resources are available for use, it is generally SFMTA's policy to use unrestricted resources first, and then use restricted resources when they are needed.

(b) Effects of New Pronouncements

During fiscal year 2016, the City implemented the following accounting standards:

In fiscal year 2016, the SFMTA adopted Statement No. 72 of the Governmental Accounting Standards Board, entitled, *Fair Value Measurement and Application*. GASB Statement No. 72 requires the SFMTA to use valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach or the income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. For those investments held with the City Treasury, the City discloses the requirements regarding the hierarchy of valuation inputs and techniques used for the fair value measurements at City-wide level. However, such disclosure is not required at the department level for those investments held with the City Treasury.

In fiscal year 2016, the SFMTA adopted Statement No. 82 of the Governmental Accounting Standards Board, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. As GASB Statement No. 82 changes the classification of these payments, commonly referred to as Employer-Paid Member Contributions, SFMTA reclassified these payments. While the applicable requirements of this Statement are effective for reporting periods beginning after June 15, 2016, the SFMTA has elected early implementation in fiscal year 2016. In fiscal year 2015, SFMTA made Employer-Paid Member Contributions to satisfy contribution requirements of the San Francisco Employees' Retirement System and collective bargaining agreements. GASB Statement No. 82 requires Employer-Paid Member Contributions to be classified as employee contributions rather than classified as employer contributions. In fiscal year 2015, such payments were classified as employer contributions by SFMTA as required by GASB Statement No. 68. Therefore early implementation of GASB Statement No. 82, which amends GASB Statement No. 68, requires these payments to be reclassified as employee contributions, resulting in a restatement due to change in accounting principle of fiscal year 2015, decreasing deferred outflows and increasing pension expense by $8.6 million.

The SFMTA distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses primarily result mainly from the public using the transportation surface system. The principal operating revenue is generated from passenger fares, meter parking, garage parking fees, fines, parking permits, and fees collected from advertisements on the SFMTA property. All other revenue such as operating assistance grants, interest income, and development fees are considered nonoperating revenue. Operating expenses of the SFMTA include costs associated with providing transportation services including employment and labor costs, materials, services, depreciation on capital assets, support services from other city departments, and other related expenses. All expenses not meeting this definition are reported as nonoperating expenses.

(c) Cash and Cash Equivalents and Investments

The SFMTA maintains its deposits and investments and a portion of its restricted deposits and investments as part of the City's pool of cash and investments pursuant to the City Charter's requirements. The SFMTA's portion of this pool is displayed on the statements of net position as "Cash and investments with City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis to appropriate funds and entities based on their average daily cash balances.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, the City reports certain investments at fair value in the statements of net position and recognizes the corresponding change in fair value of investments in the year in which the change occurred as a component of nonoperating revenue (expenses).

The SFMTA considers its pooled deposits and investments with the City Treasury to be demand deposits and, therefore, cash equivalents for the purposes of the statements of cash flows. The City also may hold nonpooled deposits and investments for the SFMTA. Nonpooled restricted deposits and highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

(d) Inventories

Inventories are valued using the average-cost method. Inventories are expensed using the consumption method.

Rebuilt inventory items include motors, transmission, and other smaller parts that are removed from existing coaches that are overhauled and repaired.

(e) Capital Assets

Capital assets are stated at cost. All construction in progress items over $100 and nonconstruction in progress items over $5 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 60 years for building structures and improvements, infrastructure, and equipment. Generally, no depreciation is recorded in the year of acquisition, and a full year's depreciation is taken in the year of disposal.

Facilities and improvements	4 to 60 years
Infrastructure	5 to 60 years
Equipment	3 to 30 years

(f) Construction in Progress

Construction in progress represents the design and construction costs of various uncompleted projects. As facilities are accepted by the SFMTA and become operative, they are transferred to building structures and improvements, infrastructure, and equipment accounts and depreciated in accordance with the SFMTA's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

(g) Bond Premium, Issuance Costs, and Refunding of Debt

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premiums are offset against the related debt and are also amortized using the effective interest method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(h) Accrued Vacation and Sick Leave

Accrued vacation pay, which vests and may be accumulated up to 10 weeks per employee, is charged to expense as earned. Unused sick leave accumulated on or prior to December 6, 1978 is vested and payable upon termination of employment by retirement, death, or disability caused by industrial accident. Sick leave earned subsequent to that date is nonvesting and is charged to expense when earned. The amount of allowable accumulation is set forth in various memorandums of understanding but is generally limited to six months per employee.

(i) Capital Grants and Contributions

Capital grants and contributions from external sources are recognized as capital contribution earned when applicable eligibility requirements are met, such as the time reimbursable expenditures related to the grants are incurred.

The U.S. Department of Transportation, through the Federal Transit Administration (FTA), provides capital assistance to the SFMTA for the acquisition and construction of transit-related property and equipment. This assistance generally approximates 80% of acquisition cost and is administered through the Metropolitan Transportation Commission (MTC). The capital assistance provided to the SFMTA by the California Transportation Commission and San Francisco County Transportation Authority (SFCTA) is generally used as a local match to the federal capital assistance. Additional capital assistance provided to the SFMTA by other agencies is administered by MTC, and is also generally used as a local match for the federal capital assistance.

(j) Operating Assistance Grants

Operating assistance grants are recognized as revenue when approved by the granting authority and/or when related expenditures are incurred.

The SFMTA receives operating assistance from federal and various state and local sources. Transportation Development Act funds are received from the City to meet, in part, the SFMTA's operating requirements based on annual claims filed with and approved by the MTC. Sales tax represents an allocation by the MTC of the 1/2 cent transactions and use tax collected within San Francisco County for transit services.

Additionally, the SFMTA receives funding from the U.S. Department of Transportation through the Federal Highway Administration, California Transportation Commission, and the MTC to provide safe, accessible, clean, and environmentally sustainable service through transportation programs.

(k) Development Fees

Development fees to fund transportation projects are derived from three main sources. These include the following:

The Transportation Sustainability Fee (TSF), approved in 2016, is a citywide transportation fee placed on new development in the City and County of San Francisco. As a part of the City's Transportation Sustainability Program, the TSF will be an update to the current Transportation Impact Development Fee (TIDF) by expanding applicability to include market-rate residential development and certain large institutions. The TSF is expected to provide funding for the purchase of new Muni fleet, improvements to local and regional transit systems, and pedestrian and bicycling infrastructure improvements.

Developer exactions are specific developer contributions to transportation infrastructure as defined in negotiated development agreements. Development Agreements are contracts entered into by the City and a developer to expressly define a development project's rules, regulations, commitments, and policies for a specific period of time. These contributions can be in addition to or in lieu of community improvement impact fees.

The City imposes community improvement development impact fees on specific development projects in order to help address the impacts caused by new development on public services, infrastructure and facilities citywide and in certain neighborhoods. It is collected by the Planning Department and a portion of fees is directed to the SFMTA depending on the area from which it is collected. These fees are administered by the Interagency Plan Implementation Committee (IPIC) established by the Board of Supervisors and the SFMTA is a member. The IPIC makes recommendations for Area Plans with respect to capital project funding.

These fees are recorded as nonoperating revenue.

(l) Use of Estimates

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

(Dollars in thousands, unless otherwise noted)

(m) Reclassification

Certain amounts have been reclassified to conform to the current year presentation.

(3) Net Position

Net position as of June 30, 2016 and 2015 consists of the following:

		2016	2015 (Restated)
Restricted assets:			
Cash and investments with City Treasury	$	66,645	31,852
Cash and investments outside City Treasury		18,091	18,299
Receivables		1,861	2,324
Total restricted assets		86,597	52,475
Restricted liabilities of:			
Payable from restricted assets		954	1,046
Total restricted liabilities		954	1,046
Restricted assets, net	$	85,643	51,429
Net position:			
Restricted:			
Debt service	$	17,999	18,299
Other purposes		67,644	33,130
Total restricted net position		85,643	51,429
Unrestricted		(3,398)	(38,004)
Net investment in capital assets		2,938,712	2,529,275
Net position	$	3,020,957	2,542,700

Restricted Net Assets

SFMTA financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Restricted category represents net assets that have external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation and includes amounts restricted for debt service and liabilities. At June 30, 2016 and 2015, SFMTA reported $18.0 million and $18.3 million restricted assets related to debt reserves and debt service and $67.6 million and $33.1 million were restricted by legislation, respectively. The net investment in capital assets category includes capital assets net of accumulated depreciation and outstanding balances of debt attributable to the acquisition, construction, or improvement of those assets. Unrestricted is the residual amount not included in the above categories.

(Dollars in thousands, unless otherwise noted)

(4) Cash and Investments

Pursuant to the City Charter, the SFMTA maintains its cash and investments with the City Treasury and a portion of its restricted asset deposits as part of the City's pool of cash and investments. The City's investment pool is an unrated pool pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity. The Comprehensive Annual Financial Report of the City categorizes the level of common deposits and investment risks associated with the City's pooled cash and investments. As of June 30, 2016 and 2015, the SFMTA's unrestricted and restricted cash and investments with City Treasury totaled to $878,193 and $904,092, which represents 11.3% and 12.9% of the City's investment pool, respectively.

The unrestricted cash and investments outside the City Treasury are cash held by the three nonprofit garage corporations totaling to $3,533 and $3,618, taxi medallion collateral sale to $6,284 and $5,791, and revolving fund to $279 and $279 as of June 30, 2016 and 2015, respectively. The SFMTA had restricted cash and investments of $17,999 held by an independent trustee outside the City's investment pool and $92 held at a commercial bank in checking account that is covered by depository insurance as of June 30, 2016. The SFMTA had restricted cash and investments of $18,299 held by an independent trustee outside the City's investment pool as of June 30, 2015.

The following table shows the percentage distribution of the City's pooled investments by maturity:

	Investment maturities (in months)			
	Under 1	**1 to less than 6**	**6 to less than 12**	**12–60**
2016	18.4%	23.2%	20.3%	38.1%
2015	12.6%	11.9%	10.5%	65.0%

The following table shows the restricted cash and investments outside of City Treasury as of June 30, 2016 and 2015.

	Restricted cash and investments outside City Treasury		
	Investment	**Maturities**	**Fair value**
2016	Money Market Funds	Less than 1 month	$ 17,999
2015	Money Market Funds	Less than 1 month	18,299

Fair Value Hierarchy **-** The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

(Dollars in thousands, unless otherwise noted)

SFMTA's cash and investments outside of the City's pooled investments as of June 30, 2016 and 2015 consist of money market investments with maturities of one year or less and cash and cash equivalents. These are exempt from fair value treatment under GASB Statement No. 72.

(5) Capital Assets

Capital asset balances and their movements as of and for the year ended June 30, 2016 are as follows:

	Balance, July 1, 2015	Increases	Decreases	Balance, June 30, 2016
Capital assets not being depreciated:				
Land	$ 41,030	—	—	41,030
Construction in progress	1,035,096	532,005	(220,844)	1,346,257
Total capital assets not being depreciated	1,076,126	532,005	(220,844)	1,387,287
Capital assets being depreciated:				
Building structures and improvements	697,731	13,940	(75)	711,596
Equipment	1,413,277	196,806	(48,628)	1,561,455
Infrastructure	1,241,509	18,687	—	1,260,196
Total capital assets being depreciated	3,352,517	229,433	(48,703)	3,533,247
Less accumulated depreciation for:				
Building structures and improvements	274,731	16,815	(5)	291,541
Equipment	865,348	80,521	(42,477)	903,392
Infrastructure	541,345	36,379	—	577,724
Total accumulated depreciation	1,681,424	133,715	(42,482)	1,772,657
Total capital assets being depreciated, net	1,671,093	95,718	(6,221)	1,760,590
Total capital assets, net	$ 2,747,219	627,723	(227,065)	3,147,877

Certain buses, parking meters, and equipment were sold, disposed, and retired during 2016. The net loss on disposal or retirement is $5.4 million.

(Dollars in thousands, unless otherwise noted)

Capital asset balances and their movements as of and for the year ended June 30, 2015 are as follows:

	Balance, July 1, 2014	Increases	Decreases	Balance, June 30, 2015
Capital assets not being depreciated:				
Land	$ 41,030	—	—	41,030
Construction in progress	849,447	331,845	(146,196)	1,035,096
Total capital assets not being depreciated	890,477	331,845	(146,196)	1,076,126
Capital assets being depreciated:				
Building structures and improvements	679,847	18,288	(404)	697,731
Equipment	1,326,667	112,363	(25,753)	1,413,277
Infrastructure	1,225,359	16,150	—	1,241,509
Total capital assets being depreciated	3,231,873	146,801	(26,157)	3,352,517
Less accumulated depreciation for:				
Building structures and improvements	258,927	16,208	(404)	274,731
Equipment	815,280	75,298	(25,230)	865,348
Infrastructure	506,095	35,250	—	541,345
Total accumulated depreciation	1,580,302	126,756	(25,634)	1,681,424
Total capital assets being depreciated, net	1,651,571	20,045	(523)	1,671,093
Total capital assets, net	$ 2,542,048	351,890	(146,719)	2,747,219

Certain buses, trucks, and equipment were sold, disposed, and retired during 2015. The net gain on disposal or retirement is $33.

(Dollars in thousands, unless otherwise noted)

Construction in progress consists of the following projects as of June 30, 2016 and 2015:

		2016	2015
New Central Subway	$	946,088	794,809
Central Control System Upgrades		85,951	75,719
Security Projects		10,493	9,151
Historic Street Car Renovation		3,512	2,912
Radio Replacement		49,509	25,098
Facility Upgrades		24,460	15,509
Islais Creek-Woods Annex		21,765	16,835
Transit Effectiveness Program		39,364	26,397
Rail Replacement		58,834	35,760
Traffic Signal Upgrades		21,253	16,302
Motor Bus Hybrid Procurement		7,980	—
Traffic Sign Installation/Traffic Calming		3,824	1,090
Trolley Overhead Reconstruction		4,415	1,713
Light Rail Vehicle Procurement		16,753	—
Street Improvements		10,920	4,822
Trolley Bus Procurement		35,768	4,441
Others		5,368	4,538
	$	1,346,257	1,035,096

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were $131,103 and $100,425 at June 30, 2016 and 2015, respectively. This category consists of liabilities for goods and services either evidenced by vouchers approved for payment but not paid as of June 30, accrued expenses for amount owed to private persons or organizations for goods and services, and construction contracts retainage payable.

		2016	2015
Vouchers payable	$	80,730	70,527
Accruals		27,322	23,693
Contracts retainage		23,051	6,205
Total accounts payable and accrued expenses	$	131,103	100,425

(7) Short-Term Debt

On June 4, 2013, pursuant to the City Charter Section 8A.102 (b)13, the SFMTA Board of Directors authorized the issuance of commercial paper notes in an aggregate principal amount not to exceed $100 million. On July 16, 2013, the Board of Supervisors concurred with the issuance. The commercial paper is secured by an irrevocable letter of credit from the State Street Bank and Trust Company issued on September 10, 2013 for a term of five years and interest rate not to exceed 12% per annum. The letter of credit will cover the principal as well as the interest accrued on the 270 days prior to the maturity date. The commercial paper program is jointly administered by the Office of Public Finance (OPF) and SFMTA. OPF will be initiating the issuance of commercial paper with the dealers and reporting on the commercial paper program. The commercial paper notes will be issued from time to time on a revolving basis to pay for Board-approved project costs in the Capital Improvement Program and other related uses. SFMTA will be requesting drawdowns based on cash flow needs and expenditure schedules.

No commercial paper notes have been drawn or outstanding as of June 30, 2016 and 2015.

(8) Long-Term Debt, Loans, and Other Payables

In 2007, San Francisco voters approved Proposition A, which authorized the SFMTA to issue revenue bonds and other forms of indebtedness without further voter approval but with approval by the SFMTA Board of Directors and concurrence by the Board of Supervisors.

Series 2014 Revenue Bonds

In November 2014, the SFMTA issues its Revenue Bonds, Series 2014 in the total amount of $70.6 million. The net proceed of $80.4 million (consisting of $70.6 million of the Series 2014 bonds plus original issue premium of $9.8 million) were used to pay $0.2 million underwriter discount and $0.7 million in costs of issuance, deposit $4.5 million into the Reserve Account, and fund $75.0 million for various transit and parking capital projects for the SFMTA. The Series 2014 bonds bear interest at fixed rates between 1.0% to 5.0% and have a final maturity on March 1, 2044.

Series 2013 Revenue Bonds

In December 2013, the SFMTA issues its Revenue Bonds, Series 2013 in the total amount of $75.4 million. The net proceed of $82.2 million (consisting of $75.4 million of the Series 2013 bonds plus original issue premium of $6.8 million) were used to pay $0.2 million underwriter discount and $1 million in costs of issuance, deposit $6.0 million into the Reserve Account, and fund $75.0 million for various transit and parking capital projects for the SFMTA. The Series 2013 bonds bear interest at fixed rates between 1.5% to 5.0% and have a final maturity on March 1, 2033.

Series 2012A Revenue Bonds

In July 2012, the SFMTA issued Revenue Refunding Bonds, Series 2012A in the total amount of $38.0 million to refund prior bonds issued by the Parking Authority, the City of San Francisco Ellis-O’Farrell Corporation, the City of San Francisco Downtown Parking Corporation, and the City of San Francisco Uptown Parking Corporation. The Series 2012A bonds bear interest at fixed rates between 2.0% and 5.0%, and will mature on March 1, 2032.

The net proceeds of $46.0 million (consisting of the $38.0 million par amount of the Series 2012A bonds, plus original issue premium of $5.1 million, plus $2.9 million accumulated in the debt service and reserve fund related to the refunded bonds) were used to pay $0.1 million underwriter’s discount and $0.5 million in costs of issuance, make a $2.7 million deposit into Reserve Account, and deposit $42.7 million into irrevocable escrow funds with the Trustee to defease and refund $42.3 million in revenue bonds described below:

(Dollars in thousands, unless otherwise noted)

		Refunded	Rate	Price
Series Revenue Bond:				
1999 Parking Meters Refunding	$	13,080	4.70%–5.00%	100%
2000A North Beach		5,075	5.00%–5.50%	100
2001 Uptown Parking		15,465	5.50%–6.00%	100
2002 Ellis Parking		2,535	4.20%–4.70%	100
2002 Downtown Parking		6,095	4.50%–5.375%	100
Total	$	42,250		

The refunded bonds were defeased and redeemed on July 27, 2012. Accordingly, the liability for these bonds has been removed from the accompanying statements of net position. The loss of $0.9 million on refunding of debt resulting from the fiscal year 2013 refunding, previously reported as a contra liability, was recalculated to be a gain of $0.5 million reported as a deferred inflow of resources. The SFMTA obtained an economic gain (the difference between the present value of the old debt and the new debt) of $6.7 million or 15.8% of the refunded bonds.

Series 2012B Revenue Bonds

In July 2012, the SFMTA issues its Revenue Bonds, Series 2012B in the total amount of $25.8 million. The net proceeds of $28.0 million (consisting of $25.8 million of the Series 2012B bonds plus original issue premium of $2.2 million) were used to pay $0.1 million underwriter discount and $0.4 million in costs of issuance and set aside for City’s audit services, deposit $1.8 million into the Reserve Account, and fund $25.7 million for various transit and parking capital projects for the SFMTA. The Series 2012B included serial and term bonds with interest ranging from 3.0% to 5.0% and have a final maturity on March 1, 2042.

The following table is a summary of long-term obligations on bonds for the SFMTA:

	Final maturity date	Remaining interest rate		Balance June 30, 2016	Balance June 30, 2015
Revenue Bonds Series 2012A	2032	4.0%–5.0%	$	27,544	31,608
Revenue Bonds Series 2012B	2042	3.0%–5.0%		27,814	27,864
Revenue Bonds Series 2013	2033	3.0%–5.0%		73,485	76,521
Revenue Bonds Series 2014	2044	3.0%–5.0%		76,913	78,456
Total long-term obligations			$	205,756	214,449

(Dollars in thousands, unless otherwise noted)

The changes in long-term obligations for the SFMTA for year ended June 30, 2016 and 2015 are as follows:

		July 1, 2015	Additional obligations, interest accretion, and net increases	Current maturities, retirements, and net decreases	June 30, 2016	Amounts due within one year
Bonds payable:						
Revenue bonds	$	193,175	—	(7,340)	185,835	7,640
Add/less unamortized amounts:						
For issuance premiums		21,274	—	(1,353)	19,921	—
Total bonds payable		214,449	—	(8,693)	205,756	7,640
Notes, loans and other payables *		—	97	(21)	76	32
Accrued vacation and sick leave		32,682	2,263	(139)	34,806	21,759
Accrued workers' compensation		102,984	38,465	(23,809)	117,640	20,251
Accrued claims		65,480	25,457	(11,715)	79,222	37,762
Other post employment benefits obligation		220,297	45,029	(29,334)	235,992	—
Unearned revenue and other liabilities		10,304	12,988	(3,761)	19,531	19,531
Net pension liability		238,296	156,185	(79,870)	314,611	—
Total long-term obligations	$	884,492	280,484	(157,342)	1,007,634	106,975

*In August 2015, the Uptown Parking Corporation entered into an equipment finance agreement with US Bank for the purchase of security cameras for the Sutter-Stockton Garage. The loan balance as of fiscal year 2016 is $76.

(Dollars in thousands, unless otherwise noted)

	July 1, 2014	Additional obligations, interest accretion, and net increases	Current maturities, retirements, and net decreases	June 30, 2015	Amounts due within one year
Bonds payable:					
Revenue bonds	$ 130,265	70,605	(7,695)	193,175	7,340
Add/less unamortized amounts:					
For issuance premiums	12,675	9,789	(1,190)	21,274	—
Total bonds payable	142,940	80,394	(8,885)	214,449	7,340
Accrued vacation and sick leave	30,731	3,253	(1,302)	32,682	21,711
Accrued workers’ compensation	95,151	30,401	(22,568)	102,984	17,191
Accrued claims	59,701	21,337	(15,558)	65,480	34,979
Other postemployment benefits obligation	199,205	48,667	(27,575)	220,297	—
Unearned revenue and other liabilities	15,282	1,140	(6,118)	10,304	10,304
Net pension liability	509,795	—	(271,499)	238,296	—
Total long-term obligations	$ 1,052,805	185,192	(353,505)	884,492	91,525

The bond debt service requirements are as follows:

	Principal	Bond interest	Total
Year ending June 30:			
2017	$ 7,640	8,989	16,629
2018	7,615	8,617	16,232
2019	7,015	8,340	15,355
2020	7,355	8,019	15,374
2021	5,800	7,663	13,463
2022–2026	32,560	34,033	66,593
2027–2031	41,120	25,292	66,412
2032–2036	33,410	15,068	48,478
2037–2041	28,385	8,129	36,514
2042–2044	14,935	1,380	16,315
	$ 185,835	125,530	311,365

The SFMTA’s debt policy is that the aggregate annual debt service on long-term debt cannot exceed 5% of SFMTA’s annual operating expenses. SFMTA met the requirement for the fiscal years ended 2016 and 2015.

(Dollars in thousands, unless otherwise noted)

SFMTA must be in compliance with certain bond covenants.

The bond indenture for the SFMTA requires that certain funds be established and administered by a trustee. The Reserve Fund is to be maintained by the trustee for the benefit and security of the holders of the bonds to which such accounts are pledged, and shall not be available to pay or secure the payment of any other bonds. As of June 30, 2016 and 2015, the bond reserve fund with the trustee totaled $15.0 million and $15.0 million, respectively.

The SFMTA has pledged future revenues to repay various bonds. Proceeds from the revenue bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable from all SFMTA operating revenues except for City General Fund allocations and restricted sources and are payable through the fiscal year 2044.

Annual principal and interest payments for fiscal year 2016 and 2015 were 29.5% and 14.8%, respectively, of funds available for revenue bond debt service. The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during fiscal year 2016 and 2015, applicable net revenues, and funds available for bond debt service are as follows:

		2016	2015
Bonds issued with revenue pledge	$	209,840	209,840
Principal and interest remaining due at the end of the year		311,365	328,011
Principal and interest paid during the year		16,495	14,640
Net revenue for the year		39,405	84,547
Fund available for revenue bond debt service		55,900	99,187

(9) Employee Benefit Plans

(a) Pensions – City and County of San Francisco

Retirement Plan

The SFMTA participates in the City's retirement plan. The City administers a cost-sharing multiple-employer defined benefit pension Plan (the Plan). The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Retirement System plans, and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by Cheiron, the consulting actuary, for Plan. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

(Dollars in thousands, unless otherwise noted)

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used.

San Francisco Employers Retirement System (SFERS) – Cost Sharing

Valuation Date (VD)	June 30, 2014 updated to June 30, 2015
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

The City is an employer of the plan with a proportionate share of 93.90% as of June 30, 2015, and 93.78% as of June 30, 2014. The SFMTA's allocation percentage was determined based on the SFMTA's employer contributions divided by the City's total employer contributions for fiscal year 2015 and 2014. The SFMTA's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense to each department is based on the SFMTA's allocated percentage. The SFMTA's allocation of the City's proportionate share in fiscal year 2016 was 14.84% as of the measurement date and in fiscal year 2015 was 14.35% as of the measurement date.

Employees' Retirement System

Plan Description – The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

Benefits – The Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual cost of living adjustments after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City. The membership groups and the related service retirement benefits are included in the Notes to the Basic Financial Statements of San Francisco Employees Retirement System.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in the Consumer Price Index with increases capped at 2%. Effective July 1, 2012, the Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan and the Plan is fully funded on a market value of assets basis. The maximum benefit adjustment is 3.5% including that Basic COLA. For members hired on or after January 7, 2012, Supplemental COLAs will not be permanent adjustments to retirement benefits.

Funding and Contribution Policy

Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2016 varied from 7.5% to 13.0% as a percentage of gross covered salary. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2014 actuarial report, the required employer contribution rate for fiscal year 2016 was 18.30% to 22.80%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal years ended June 30, 2015 and 2014 were $556.5 million and $499.8 million, respectively. The SFMTA's allocation of employer contribution for fiscal years 2015 and 2014 were $79.9 million and $80.3 million restated as $71.7 million due to the implementation of GASB Statement No. 82, respectively.

In fiscal year 2016, the SFMTA elected an early implementation of Statement No. 82 of the Governmental Accounting Standards Board, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The GASB Statement No. 82 changes the classification of payments made by employers to satisfy employee (plan member) contribution requirements, commonly referred to as Employer-Paid Member Contributions. SFMTA reclassified these payments as employee contributions rather than classified as employer contributions.

<u>Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions</u>

As of June 30, 2016 and 2015, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $2.16 billion and $1.66 billion, respectively. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan for June 30, 2016 is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The SFMTA's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2015 was $314,611 and $238,296, respectively. During the measurement year 2015, there were no changes to benefits. The increase in service costs, interest costs, and decrease in the discount rate increased total pension liability and were only partially offset by contributions, investment income, and actuarial experience gains, resulting in an overall increase in net pension liability.

(Dollars in thousands, unless otherwise noted)

For the year ended June 30, 2016 and 2015, the City's recognized pension expense was $106,499 and $95,710, respectively including amortization of deferred outflow/inflow related pension items. The SFMTA's pension expense for the year ended June 30, 2016 and 2015 was $17,638 and $13,735, respectively, allocated share of pension expense from the City including amortization of deferred outflows/deferred inflows of resources related items. At June 30, 2016, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources. These amounts will be amortized annually and recognized in pension expense.

Schedule of deferred inflows and outflows

		FY2016		FY2015 (Restated)	
		Deferred outflows of resources	**Deferred inflows of resources**	**Deferred outflows of resources**	**Deferred inflows of resources**
Pension contributions made subsequent to the measurement date	$	73,676	—	79,870	—
Differences between expected and actual experience		—	22,077	—	—
Changes in assumptions		24,179	5,929	—	7,894
Net difference between projected and actual earnings on pension plan investments		—	70,508	—	204,142
Changes in employer's proportion		478	1,106	—	1,474
Total	$	98,333	99,620	79,870	213,510

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be recognized in pension expense as follows:

		Deferred outflows (inflows) of resources
Year ended June 30:		
2017	$	(32,103)
2018		(32,103)
2019		(32,103)
2020		21,346
Thereafter		—

(Dollars in thousands, unless otherwise noted)

Actuarial Assumptions – A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2015 is provided below, including any assumptions that differ from those used in the July 1, 2014 actuarial valuation. Refer to the July 1, 2014 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

Key Actuarial Assumptions	
Valuation date	June 30, 2014 updated to June 30, 2015
Measurement date	June 30, 2015
Actuarial cost method	Entry-age normal cost method
Expected rate of return	7.50%
Municipal bond yield	4.31% as of June 30, 2014
	3.85% as of June 30, 2015
	Bond Buyer 20-Bond GO Index, July 2, 2014 and July 2, 2015
Discount rate	7.58% as of June 30, 2014
	7.46% as of June 30, 2015
Administrative expenses	0.45% of payroll
Basic COLA:	
All miscellaneous and all new plans	2.00%
Old Police & Fire pre-7/1/75 retirements	3.00%
Old Police & Fire, Charters A8.595 and A8.596	4.00%
Old Police & Fire, Charters A8.559 and A8.585	5.00%

Mortality rates for active members were based on the RP-2000 Employee Tables for Males and Females, projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for healthy annuitants were based upon the RP-2000 Healthy Annuitants Tables for Males and Females projected using Scale AA to 2020.

Discount Rate – The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.46% as June 30, 2015 and 7.58% as of June 30, 2014.

The discount rate used to measure the Total Pension Liability as of June 30, 2015 was 7.46%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2014 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability. The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

(Dollars in thousands, unless otherwise noted)

While the contributions and measure of actuarial liability in the valuation do not anticipate any Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLA's for current members when they are expected to be granted. For a Supplemental COLA to be granted the market value of assets must exceed the actuarial liability at the beginning of the year and the actual investment earnings during the year must exceed the expected investment earnings on the actuarial value of assets. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. In most cases, the large majority of members receive a 1.50% Supplemental COLA.

Because the probability of a Supplemental COLA depends on the current funded level of the System, developed an assumption as of June 30, 2015 of the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLAs for member with a 2.00% basic COLAs for sample years.

Assumed Supplemental COLA for members with a 2.00% Basic COLA

FYE	Assumption
2016	0.000%
2021	0.345%
2026	0.375%
2031	0.375%
2036+	0.375%

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2076 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.85% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2015 and 2014 are 7.46% and 7.58%, respectively.

(Dollars in thousands, unless otherwise noted)

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Long-term expected real rates of return

Asset class	Target allocation	Long-term expected real rate of return
Global equity	40%	5.1%
Fixed income	20%	1.2%
Private equity	18%	7.5%
Real assets	17%	4.1%
Hedge Funds/Absolute Returns	5%	3.5%
	100%	

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the SFMTA's allocation of the employer's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what the SFMTA's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Employer	1% decrease share of NPL @ 6.46%	Share of NPL @ 7.46%	1% increase share of NPL @ 8.46%
SFMTA	$ 695,714	$ 314,611	$ (5,002)

(b) Deferred Compensation Plan

The City offers its employees, including the SFMTA employees, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all active employees to voluntarily invest a portion of their pretax regular earnings in a diverse selection of investment funds. Withdrawals from the deferred compensation plan, by employees or other beneficiaries, are allowed only upon termination, retirement, death, or for unforeseeable emergency.

(Dollars in thousands, unless otherwise noted)

The deferred compensation plan is managed by the Retirement System and is administered by a third-party administrator. The SFMTA has no administrative involvement and does not perform the investing function. SFMTA has no fiduciary accountability for the plan, and accordingly, the plan assets and related liabilities to the plan participants are not included in these financial statements.

(c) Healthcare Benefits

Healthcare benefits of the SFMTA employees, retired employees, and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the Health Service System). The SFMTA's annual contribution, which amounted to approximately $101,300 and $89,689 in fiscal years 2016 and 2015, respectively, is determined by a charter provision based on similar contributions made by the 10 most populous counties in California.

The City has determined a citywide annual required contribution, interest on net Other Post – Employment Benefits (OPEB) obligation, Annual Required Contribution (ARC) adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45, by the City's actuaries. The City's allocation of the OPEB-related cost to the SFMTA for the year ended June 30, 2016 based upon its percentage of citywide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for SFMTA for the fiscal years ended June 30, 2016 and 2015 the amounts contributed to the plan and changes in the net OPEB obligations:

		2016	2015
Annual required contribution	$	42,506	46,893
Interest on net OPEB obligation		13,496	10,672
Adjustment to ARC		(10,973)	(8,898)
Annual OPEB cost		45,029	48,667
Contribution made		(29,334)	(27,575)
Increase in net OPEB obligation		15,695	21,092
Net OPEB obligation, beginning of fiscal year		220,297	199,205
Net OPEB obligation, end of fiscal year	$	235,992	220,297

Refer to the City's CAFR for the other required disclosures related to the City's OPEB plan. The City issues a publicly available financial report at citywide level with complete note disclosures and required supplementary information related to the City's postretirement healthcare obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, CA 94102, or by calling 415-554-7500.

(Dollars in thousands, unless otherwise noted)

(10) Peninsula Corridor Joint Powers Board

The City is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), along with the Santa Clara Valley Transportation Authority and the San Mateo County Transit District. The PCJPB is governed by a separate board composed of nine members, three from each participating agencies. The PCJPB was formed in October 1991 to plan, administer, and operate the Peninsula CalTrain rail service. The PCJPB began operating the Peninsula CalTrain rail service on July 1, 1992. Prior to that time, such rail service was operated by the California Department of Transportation. The agreement establishing the PCJPB expired in 2001, upon which it continues thereafter on a year-to-year basis, until a participant withdraws, which requires one-year notice. The SFMTA contributes to the net operating costs and administrative expenses of the PCJPB. The SFMTA contributed $5.2 million and $5.2 million for operating needs in fiscal years 2016 and 2015, respectively. The PCJPB's annual financial statements are publicly available.

(11) Risk Management

The SFMTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; transit and general liability; injuries to employees; and natural disasters. The SFMTA risk treatment program encompasses both self-insured and insured methods. Insurance purchase is generally coordinated through the City's Risk Management Division, and in some specific cases, directly by the agency. Self-insurance is when the City manages risks internally and administers, adjusts, settles, defends, and pays claims from budgeted resources, i.e., pay-as-you-go. The City's and SFMTA's general policy is to first evaluate self-insurance for the risk of loss to which it is exposed. When economically more viable or when required by debt financing covenants, SFMTA purchases insurance as necessary or required.

Risks	Coverage
a. General/Transit Liability	Self-Insure
b. Property	Self-Insure and Purchase Insurance
c. Workers' Compensation	Self-Insure
d. Employee (Transit Operators)	Purchase Insurance
e. Directors and Officers	Purchase Insurance

(a) General/Transit Liability

The SFMTA is self-insured. Through coordination with the Controller and City Attorney's Office, the SFMTA general liability payments are addressed through pay-as-you-go funding as part of the budgetary process as well as a reserve that is increased each year by approximately $3 million. The annual budget for claims was $11.9 million and $13.9 million for fiscal year 2016 and 2015, respectively. In addition, as of June 30, 2016 and 2015, the reserve was $20.1 million and $17.7 million, respectively. Claim liabilities are actuarially determined anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation, and other economic social factors.

(b) Property

The SFMTA purchases property insurance on its facilities, Breda light rail cars, and personal property.

Also, insurance is purchased for scheduled City parking garages covering blanket property and business interruptions. Damages to facilities and property outside of the specified schedules are self-insured. For SFMTA contractors, SFMTA requires each contractor to provide its own insurance, the traditional insurance ensuring that the full scope of work be covered with satisfactory levels to limit the risk exposure to City and SFMTA's property.

(c) Workers' Compensation

The workers' compensation payments are addressed through pay-as-you-go funding as part of the budgetary process. Claim liabilities are actuarially determined anticipated claims and projected timing of disbursement, considering open claims' future exposure based on current costs, and estimation for injuries that may have occurred but not yet reported. The workers' compensation claims and payouts are handled by the City's third-party administrator. SFMTA continues to develop and implement programs to mitigate growth of costs such as the transitional work programs that bring injured workers back to work on modified duty. Other programs include injury prevention, back care, injury investigation, and medical treatment bills review.

Workers' compensation expense is part of personnel services, while claims expense is part of general and administrative under operating expenses in the accompanying statements of revenue, expenses, and changes in net position.

(d) Employee Benefits (Transit Operators) Insurance

SFMTA has purchased group life insurance and a Group Felonious Assault Coverage Insurance on transit operators per Memorandum of Understanding.

(e) Directors and Officers Insurance

SFMTA has purchased insurance starting in fiscal year 2012 to cover errors and omissions of its Board members and senior management.

See the changes in workers' compensation and general liabilities for claims paid and incurred claims and changes in estimate in note 8, Long-Term Debt, Loans, and Other Payables.

(12) General Fund Contributions

The amount of operating allocation provided to the SFMTA each year is limited to the amount set by the City Charter and budgeted by the City. Such allocation is recognized as revenue in the year received.

The General Fund support from the City reflected in the accompanying financial statements includes a total revenue baseline transfer of $284.7 million and $272.3 million in fiscal years 2016 and 2015, respectively, as required by the City Charter. In addition, SFMTA received $68.9 million and $69.8 million allocation in fiscal years 2016 and 2015, respectively, from in lieu of parking tax as required by the City Charter.

Proposition B, approved by the voters in November 2014, provides additional City General Funds to address transportation needs tied to the City's population growth. In fiscal year 2016, SFMTA received $27.7 million from this source.

(13) Federal, State, and Local Assistance

The SFMTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2016 and 2015, the SFMTA had approved capital grants with unused balances amounting to $906.4 million and $920.8 million, respectively. Capital grants receivable as of June 30, 2016 and 2015 totaled $136.1 million and $76.0 million, respectively.

The SFMTA also receives operating assistance from various federal, state, and local sources including Transit Development Act funds, diesel fuel, and sales tax allocations. As of June 30, 2016 and 2015, the SFMTA had various operating grants receivable of $30.7 million and $27.5 million, respectively. In fiscal year 2016 and 2015, the SFMTA's operating assistance from BART's Americans with Disability Act (ADA) related support of $1.6 million and $1.5 million, respectively, and other federal, state, and local grants of $8.5 million and $12.4 million, respectively, to fund project expenses that are operating in nature.

The capital and operating grants identified above include funds received and due from the SFCTA. During the fiscal year 2016 and 2015, the SFCTA approved $124.4 million and $176.1 million, respectively, in new capital grants and the SFMTA received payments totaling $50.6 million and $24.0 million, respectively. As of June 30, 2016 and 2015, the SFMTA had $12.6 million and $1.5 million, respectively, in capital grants due from the SFCTA. Similarly, the SFMTA receives operating grants from SFCTA mostly for paratransit support. During the fiscal years 2016 and 2015, SFCTA approved $1.5 million and $10.7 million, respectively, in new operating grants, and SFMTA received payments totaling $6.5 million and $7.7 million, respectively. The SFMTA had $4.3 million and $2.5 million, respectively, in operating grants due from the SFCTA as of June 30, 2016 and 2015.

Proposition 1B is a ten-year $20 billion transportation infrastructure bond that was approved by state voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) and the Transit Security & Safety Account that are funding solely for public transit projects. The SFMTA received cash totaling $12.6 million and $95.5 million, respectively, in fiscal year 2016 and 2015 for different projects. Proposition 1B funds do not require matching funds. The original legislation required funds to be obligated within three years of the date awarded. SB87 extended the date to June 30, 2016 for funds awarded between fiscal years 2008 and 2010. The Budget Act of 2013 further extended the date to June 30, 2018. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal years 2016 and 2015, $69.7 million and $89.1 million drawdowns, respectively, were made from the funds for various eligible projects costs.

(Dollars in thousands, unless otherwise noted)

(14) Commitments and Contingencies

(a) Grants and Subventions

Receipts from federal and state grants and other similar programs are subject to audit to determine if the funds were expended in accordance with appropriate statutes, grant terms, and regulations. The SFMTA believes that no significant liabilities will result from any such audits.

(b) Operating Leases

The SFMTA leases certain equipment and various properties for use as office space, fleet storage space, and machine shops under lease agreements that expire at various dates through fiscal year 2045. These agreements are accounted for as operating leases. Rent expense was $17.1 million and $16.1 million for the years ended June 30, 2016 and 2015, respectively.

The SFMTA has operating leases for certain buildings that require the following minimum annual payments:

Year ending June 30:		
2017	$	12,419
2018		12,661
2019		12,816
2020		12,611
2021		13,099
2022–2026		62,679
2027–2031		70,306
2032–2036		68,899
2037–2041		74,473
2042–2046		91,136
	$	431,099

(Dollars in thousands, unless otherwise noted)

SFMTA leases certain owned facilities to tenants and concessionaires who will provide the following minimum annual payments:

Year ending June 30:		
2017	$	4,539
2018		4,489
2019		4,085
2020		3,103
2021		2,450
2022–2026		7,488
2027–2031		6,267
2032–2036		6,250
2037–2041		6,250
2042–2046		6,250
2047–2051		6,250
2052-2056		5,833
	$	63,254

(c) Other Commitments

As of June 30, 2016 and 2015, the SFMTA has outstanding commitments of approximately $567.2 million and $465.9 million with third parties for various capital projects, respectively. Grant funding is available for the majority of this amount. The SFMTA also has outstanding commitments of approximately $53.1 million and $45.6 million with third parties for noncapital expenditures as of June 30, 2016 and 2015, respectively. Various local funding sources are used to finance these expenditures.

In addition, the SFMTA is involved in various lawsuits, claims, and disputes, which have arisen in SFMTA's routine conduct of business. In the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of SFMTA.

(15) Leveraged Lease-Leaseback of Breda Vehicles

Tranches 1 and 2

In April 2002 and in September 2003, following the approval of the Federal Transit Administration, SFMTA Board of Directors, and the City's Board of Supervisors, Muni entered into separate leveraged lease-leaseback transactions for over 118 and 21 Breda light rail vehicles (the Tranche 1 and Tranche 2 Equipment, respectively, and collectively, the "Equipment"). Each transaction, also referred to as a "sale in lease out" or "SILO", was structured as a head lease of the Equipment to a special purpose trust and a sublease of the Equipment back from such trust. Under each sublease, Muni retained an option to purchase the Equipment on specified dates between November 2026 through January 2030 in the case of the Tranche 1 Equipment and in

January 2030 in the case of the Tranche 2 Equipment. During the terms of the subleases, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment.

Muni received an aggregate of $388.2 million and $72.6 million, respectively in 2002 and 2003, from the equity investors in full prepayment of the head leases. Muni deposited a portion of the prepaid head lease payments into separate escrows that were invested in U.S. agency securities with maturities that correspond to the purchase option dates for the Equipment as specified in each sublease. Muni also deposited a portion of the head lease payments with a debt payment undertaker whose repayment obligations are guaranteed by Assured Guaranty Municipal Corp. (AGM) as successor to Financial Security Assurance (FSA), a bond insurance company, that was rated “AAA” by Standard & Poor’s (“S&P”) and “Aaa” by Moody’s Investor Services (“Moody’s”) at the time the Tranche 1 and Tranche 2 Equipment transactions were entered into. Although these escrows do not represent a legal defeasance of Muni’s obligations under the subleases, management believes that these transactions are structured in such a way that it is not probable that Muni will need to access other monies to make sublease payments. Therefore, the assets and the sublease obligations have not been recorded on the financial statements of the SFMTA.

As a result of the cash transactions above, Muni recorded $35.5 million and $4.4 million in fiscal years 2002 and 2003 respectively, representing the difference between (a) the amounts received of $388.2 million and $72.6 million, and (b) the amounts of $352.7 million and $67.5 million paid to the escrows, the debt payment undertaker and for certain transaction expenses. These amounts have been classified as deferred inflows of resources in fiscal year 2016 and will be amortized over the life of each sublease unless the purchase option is executed or sublease is otherwise terminated before its expiration date. The deferred inflows of resources amortized amounts were $9.4 million and $2.4 million for the Tranche 1 Equipment and Tranche 2 Equipment in fiscal year 2016.

On March 17, 2014, Muni terminated leveraged lease transactions with respect to 30 items of Tranche 1 Equipment having an initial transaction value of $99.3 million.

On May 24, 2016, Muni terminated leveraged lease transactions with respect to 28 items of Tranche 1 Equipment having an initial transaction value of $89.6 million and 21 items of Tranche 2 Equipment having an initial transaction value of $72.6 million. On June 27, 2016, Muni terminated leveraged lease transactions with respect to 31 items of Tranche 1 Equipment having an initial transaction value of $100.4 million. As of June 30, 2016, one leveraged lease transaction with respect to 29 items of Tranche 1 Equipment having an initial transaction value of $98.7 million remains outstanding.

(16) Subsequent Events

Issuance of Revenue Bond Series

The Series 2017 Revenue Bonds will be issued by the SFMTA with the US Bank as trustee as approved by the SFMTA Board and concurred by the Board of Supervisors under resolution adopted on June 14, 2016. The total Series 2017 Bonds will result in project funding of $207 million and are being issued (a) to finance a portion of the costs of various capital projects for the SFMTA; (b) to make a deposit to the Series 2017 Reserve Account of the Reserve Fund established under the Indenture for the Series 2017 Bonds; and (c) to pay a portion of the costs of issuance of the Series 2017 Bonds.

Pension Supplemental COLA

A court decision was reached subsequent to the June 30, 2015 measurement date used by the City's actuaries in determining the City's Net Pension Liability for the San Francisco City and County Employees' Retirement System's defined benefit pension plan. The impact of the decision on the System's Net Pension Liability is not yet known, but is expected to significantly increase the City's proportionate share of the plan's Net Pension Liability. The expected increase is due to the determination of the court that the full funding requirement for payment of the Supplemental COLA was unconstitutional as applied to members who worked after November 6, 1996 and before Proposition C passed in November 2011. The June 30, 2016 actuarial report has not been issued as of the date of this report.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Mayor, Board of Supervisors,
and San Francisco Municipal Transportation Agency Board of Directors
City and County of San Francisco, California:

We have audited, in accordance with the 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, the financial statements of the San Francisco Municipal Transportation Agency (SFMTA), an enterprise fund, of the City and County of San Francisco, California (the City) as of and for the year then ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2016. Our report includes a reference to other auditors who audited the financial statements of certain entities to the SFMTA financial statements. Our report included an emphasis of matter paragraph related to the SFMTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and Statement No. 82, *Pension Issues.* The financial statements of the City of San Francisco Portsmouth Plaza Parking Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SFMTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SFMTA's internal control. Accordingly, we do not express an opinion on the effectiveness of SFMTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SFMTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SFMTA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SFMTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

(signed) KPMG LLP

San Francisco, California
October 21, 2016