

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement, and Service Enhancement Account (PTMISEA)

Year ended June 30, 2011

(In thousands)

<b>Project Number</b>	<b>Grant title</b>	<b>Allocation</b>	<b>Beginning Balance July 2, 2010</b>	<b>Interest Earned</b>	<b>Additions</b>	<b>Expenditures</b>	<b>Ending Balance June 30, 2011</b>
<b>First Allocation Fiscal Year 2007 - 2008</b>							
CPT522	Third Street Light Rail	\$ 3,700	\$ 2,812	\$ 30	\$ —	\$ 11	\$ 2,831
CPT588	Automated Passenger Count Equipment	2,500	1,390	15	—	5	1,400
CPT447	Overhead Rehabilitation: 5 Fulton and 21Hayes Bus Lines	3,000	1,808	16	—	972	852
CPT613	Farebox Rehabilitation & Neoplan Lifecycle Rehabilitation	20,000	7,126	65	—	4,448	2,743
CPT531	Geneva Yard - Historic Street Car Enclosure Facility	7,500	3,580	40	—	1,263	2,357
	Sub-total	<b>36,700</b>	<b>16,716</b>	<b>166</b>	<b>—</b>	<b>6,699</b>	<b>10,183</b>
<b>Second Allocation Fiscal Year 2007 - 2008</b>							
CPT522	Third Street Light Rail	9,700	5,048	46	—	3,050	2,044
CPT303	Operator Restrooms	2,965	2,843	30	—	43	2,830
CPT560	Wayside Fare Collection Equipment	1,000	992	8	—	956	44
	Sub-total	<b>13,665</b>	<b>8,883</b>	<b>84</b>	<b>—</b>	<b>4,049</b>	<b>4,918</b>
<b>First Allocation Fiscal Year 2008-2009</b>							
CPT544; CPT579 and CPT595	Central Subway; Wayside Central Control and Muni Rail Replacement	30,000	24,263	228	—	13,032	11,459
CPT630	Interim Line Management Center	400	404	4	—	—	408
CPT630	Light Rail Operations Control Center Improvements	1,300	1,285	13	—	144	1,154
CPKA74	Persia Triangle Transit Access Improvements	127	127	1	—	5	123
CPKA66	Randolph, Farallones, and Orizaba Transit Access Pedestrian Safety	85	68	1	—	8	61

	Sub-total	31,912	26,147	247	—	13,189	13,205
<b>Third Allocation Fiscal Year 2007-2008 and Second Allocation 2008-2009</b>							
CPT591	Light Rail Vehicle Rehabilitation Program	3,638	3,641	38	—	—	3,679
CPT544	Construction of Central Subway Light Rail Line	352	352	6	—	—	358
CPT630	High Speed Connectivity and Communications Upgrade	817	817	8	—	2	823
	Sub-total	4,807	4,810	52	—	2	4,860
<b>Third Allocation Fiscal Year 2008-2009</b>							
CPT591	Light Rail Vehicle Rehabilitation Program	5,262	—	13	5,262	—	5,275
CPT626	Light Rail Vehicle Collison Repairs	3,831	—	10	3,831	—	3,841
CPT544	Construction of Central Subway Light Rail Line	719	—	2	718	—	720
	Sub-total	9,812	—	25	9,811	—	9,836
	Total	\$ 96,896	\$ 56,556	\$ 574	\$ 9,811	\$ 23,939	\$ 43,002

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Financial Statements  
and Supplemental Schedules

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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## 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:

We have audited the accompanying financial statements of the San Francisco Municipal Transportation Agency (SFMTA) of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the management of SFMTA. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1, the financial statements of SFMTA are intended to present the financial position, and the changes in the financial 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 financial position of the City as of June 30, 2011 and 2010, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SFMTA as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of SFMTA taken as a whole. 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28<sup>th</sup>, 2011, on our consideration of the SFMTA's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

October 28<sup>th</sup>, 2011

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Management's Discussion and Analysis

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

As management of the San Francisco Municipal Transportation Agency (SFMTA), we offer readers of the SFMTA's financial statements this narrative overview and analysis of the financial activities of the SFMTA for the fiscal year ended June 30, 2011. 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 exceeded their liabilities by \$1,960,920 and \$1,833,481 at the close of fiscal years ended June 30, 2011 and 2010, respectively.
- The SFMTA's total net assets increased by \$127,439 in 2011 and increased by \$4,143 in 2010 over the prior fiscal years.
- Total net amount invested in capital assets were \$1,982,276 and \$1,918,849 at June 30, 2011 and 2010, respectively, an increase of 3.3% and an increase of 0.8% over the balances of \$1,918,849 and \$1,902,859 at June 30, 2010 and 2009, 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 financial statements include the San Francisco Municipal Railway (Muni), San Francisco Municipal Railway Improvement Corporation (SFMRIC), the operations of the Sustainable Streets (previously named as Department of Parking and Traffic) and the Taxi regulatory operations, and the five non-profit garage corporations. Muni provides transit service within the City and County of San Francisco (the City). SFMRIC is a nonprofit corporation established to provide capital financial assistance on behalf of the City for the modernization of Muni by purchasing equipment and improving facilities. SFMRIC has no employees. The Sustainable Streets operation manages 40 City-owned garages, metered parking lots and all traffic engineering functions with the City. The operations of the Taxi services assumed the responsibility to regulate the taxi industry and other motor vehicles for hire in San Francisco. The parking garages accounted for activities of non-profit corporations whose operations are to provide financial and other assistance to the City to acquire land, construct facilities, and manage various facilities. As explained in Note 2(a) to the financial statements (found on page 19), the SFMTA applies Governmental Accounting Standards Board (GASB) Statements. The SFMTA is an integral part of 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).

The statement of net assets (found on pages 14 and 15) presents information on all of the SFMTA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Management's Discussion and Analysis

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

decreases in net assets 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, 2011.

The statement of revenues, expenses, and changes in net assets (found on page 16) presents information showing how the SFMTA's net assets changed during the fiscal year ending June 30, 2011. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

The statement of cash flows (found on pages 17 and 18), presents information about the cash receipts and payments of the SFMTA during the most recent fiscal year. These statements show 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 statement 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.

### **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 19 through 37 of this report.

### **Other Information**

The supplemental schedules found on pages 38 through 52 of this report are presented for the purpose of additional analysis and are not a required part of the financial statements.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Management's Discussion and Analysis

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

**Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the SFMTA, assets exceeded liabilities by \$1,960,920 at the close of the most recent fiscal year.

**Condensed Summary of Net Assets**

June 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Total current assets	\$ 442,559	354,070	289,594
Total restricted assets	21,064	24,669	39,641
Total other noncurrent assets	1,817	1,883	2,029
Capital assets	<u>2,029,078</u>	<u>1,968,957</u>	<u>1,957,660</u>
Total assets	<u>2,494,518</u>	<u>2,349,579</u>	<u>2,288,924</u>
Liabilities:			
Total current liabilities	221,280	227,894	193,273
Total noncurrent liabilities	<u>312,318</u>	<u>288,204</u>	<u>266,313</u>
Total liabilities	<u>533,598</u>	<u>516,098</u>	<u>459,586</u>
Net assets:			
Invested in capital assets, net of related debt	1,982,276	1,918,849	1,902,859
Restricted net assets	19,898	20,262	32,974
Unrestricted net assets	<u>(41,254)</u>	<u>(105,630)</u>	<u>(106,495)</u>
Total net assets	\$ <u>1,960,920</u>	<u>1,833,481</u>	<u>1,829,338</u>

***Fiscal Year 2011***

The SFMTA's net assets increased by \$127,439 with the unrestricted net assets in a deficit position that is lower compared to the prior year. The increase in net assets is attributable to increases in operating revenues, nonoperating revenues, capital contributions and net transfers and a slight decrease in operating expenses.

The largest portion of the SFMTA's net assets (\$1,982,276 as of June 30, 2011) reflects its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in-progress). The value of these assets of \$3,299,159 is offset by accumulated depreciation of \$1,270,081 and related debt of \$46,802. More information can be found in Note 5 on page 25. The SFMTA uses these assets to provide services.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Management's Discussion and Analysis

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

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

***Fiscal Year 2010***

The SFMTA's net assets increased by \$4,143 with the unrestricted net assets in a deficit position that is slightly lower compared to the prior year. The increase in net assets is attributable to increases in operating revenues, capital contributions and net transfers offset by corresponding increase in operating expenses and decrease in nonoperating revenues.

The largest portion of the SFMTA's net asset (\$1,918,849 as of June 30, 2010) reflects its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in-progress). The value of these assets of \$3,124,499 is offset by accumulated depreciation of \$1,155,542 and related debt of \$50,108. More information can be found in Note 5 on page 25. The SFMTA uses these assets to provide services.

The remainder of the SFMTA's net assets is composed of restricted net assets including deposits and investments with the City and receivables and unrestricted net assets.

**Condensed Summary of Revenues, Expenses, and Changes in Net Assets**

Years ended June 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Total operating revenues	\$ 334,140	311,311	257,083
Total nonoperating revenues, net	243,392	223,978	239,505
Capital contributions:			
Federal	134,310	88,038	37,435
State and others	64,671	44,883	25,170
Total capital contributions	198,981	132,921	62,605
Net transfers	253,597	239,058	227,259
Total revenues and net transfers	1,030,110	907,268	786,452
Expenses:			
Total operating expenses	902,671	903,125	860,471
Change in net assets	127,439	4,143	(74,019)
Total net assets – beginning	1,833,481	1,829,338	1,903,357
Total net assets – ending	\$ <u>1,960,920</u>	<u>1,833,481</u>	<u>1,829,338</u>

***Fiscal Year 2011***

Total revenues and net transfers for the year ended June 30, 2011 were \$1,030,110, an increase of \$122,842, or 13.5%, compared to the prior fiscal year. This is due primarily to increases in all revenue categories (i.e., operating, nonoperating, capital contributions and net transfers).

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Management's Discussion and Analysis

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(Dollars in thousands, unless otherwise noted)

Operating revenues increased by \$22,829, or 7.3%. This is comprised mostly of increases in the other operating revenue category by \$14,144 or 533.5%. The increase in the other operating revenue category are mostly due to the sale of taxi medallions totaling \$12,150 when SFMTA implemented a short-term pilot program to sell certain number of taxi medallions in fiscal year 2011. For parking and transportation revenues, parking meter collections increased by \$1,662 and garage revenues increased by \$1,267. The increase in parking meter revenues was attributable to the new additional installed meters and the acceptance of credit card payments. The increase in garage revenues was due mainly to rate increase that went into effect on March, 2010. Advertising revenues increased by \$1,452 or 10.8% and passenger revenues slightly increased by \$4,228 or 2.3% compared to prior year.

The nonoperating revenue category includes operating support received from other sources, primarily federal and state operating grants, parking permits, fines and interest income. Nonoperating revenues increased by \$19,414 or 8.7%, due to increases in state transit assistance operating grants, parking permits and tow fees. 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 were more capital expenditures incurred and billable to the grantors in fiscal year 2011 compared to prior year. This resulted in the significant increase in capital contribution by \$66,060 or 49.7% when compared to fiscal year 2010. Net transfers increased by \$14,539 or 6.1% in fiscal year 2011 due to the increase in City's General Fund subsidy compared to prior year.

Total operating expenses for the year ended June 30, 2011 were \$902,671, a very slight decrease of \$454, or 0.1%, compared to the previous year. The resulting net decrease is comprised of trend changes from various expense categories. Personnel service costs increased by \$2,790, or 0.5%. The increase is attributable to increases in fringe benefits and the increase in other postemployment benefits (OPEB) compared to prior year. Materials and supplies increased by \$18,240, or 33.2%. The increase in material and supplies expenses are attributable to costs associated with continued rehabilitation and repair of an aging fleet to bring vehicles into a state of good repair as well as increase in fuel costs. Depreciation expense slightly decreased by \$925, or 0.8% compared to prior year. General and administrative expenses decreased by \$6,752 or 15.6% mainly due to lower judgment and claims costs compared to prior year. Services provided by other city departments decreased by \$4,279 or 7.7% in fiscal year 2011. The decrease in other operating expense category by \$9,009 or 270.4% is primarily due to a net increase in recoverable costs compared to the previous year.

#### ***Fiscal Year 2010***

Total revenues and net transfers for the year ended June 30, 2010 were \$907,268, an increase of \$120,816, or 15.4%, compared to the prior fiscal year. This is due primarily to increase in operating revenues and in capital contributions.

Operating revenues increased by \$54,228, or 21.1%. This is comprised mostly of passenger fares increases by \$35,516 or 23.6% and garage and meter revenues by \$16,151 or 19.1% as a result of the 33% cash fare rate increase, from \$1.50 to \$2.00 and rate increases in various monthly passes, that went into effect in July 2009. In addition to advertising revenues, other operating revenues increases include taxi revenues reported this fiscal year under SFMTA contributing to the increase of \$2,821 or 21.18% compared to prior year. These revenue increases were offset by the net decrease in rental revenues of \$494 or 7.9%.

The nonoperating revenue category includes operating support received from other sources, primarily federal and state operating grants, fines and interest income. Nonoperating revenues decreased by \$15,527 or 6.5%, due

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Management’s Discussion and Analysis

June 30, 2011 and 2010

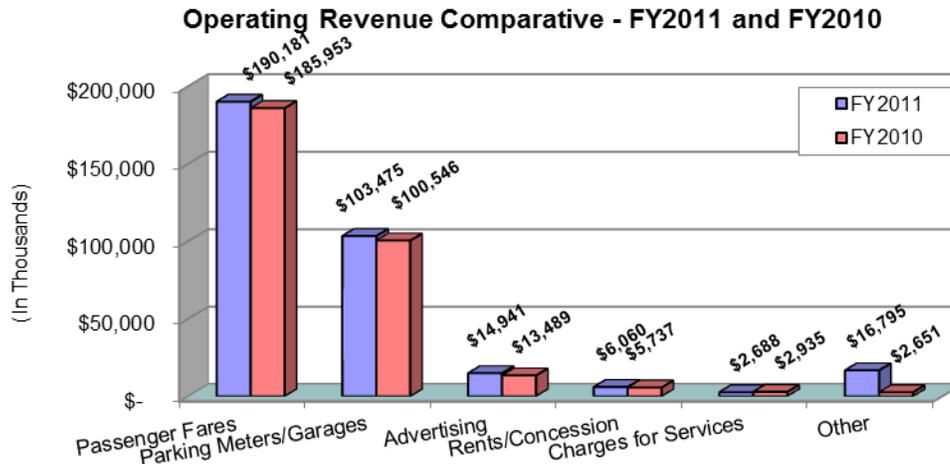
(Dollars in thousands, unless otherwise noted)

to reduction in operating grants revenues and in citation revenues for the portion of State of California’s share of parking compliance fines collected by SFMTA. 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 were more capital expenditures incurred and billable to the grantors in fiscal year 2010 than in the prior year. This attributed to the significant increase in capital contribution by \$70,316 or 112.3% when compared to fiscal year 2009. Net transfers increased by \$11,799, or 5.2%, in fiscal year 2010 compared to prior year, partly attributable to increase in subsidy from the City’s General Fund support.

Total operating expenses for the year ended June 30, 2010 were \$903,125, an increase of \$42,654, or 4.9%, compared to the previous year. The resulting net increases are comprised of trend changes from various expense categories. Personnel service costs increased by \$4,149, or 0.7%. The increase is attributable to increases in fringe benefits and the increase in other postemployment benefits (OPEB) compared to prior year. The cost of contractual services increased by \$10,759 or 20.1% compared to prior year. Materials and supplies increased by \$7,288, or 15.27%. The increases for both contractual services and material and supplies expenses are mostly attributable to costs associated with rehabilitation and repair of aging fleet to bring vehicles into a state of good repair. Depreciation expense increased by \$13,026, or 12.5% compared to prior year. This is primarily attributable to the depreciation of a significant amount of capital assets related to the building and equipment that were put into service in the prior fiscal year. General and administrative expenses increased by \$7,033 or 19.4% mainly due to higher judgment and claims estimates. Services provided by other city departments decreased by \$1,398 or 2.5% in fiscal year 2010. The increase in other operating expense category by \$1,797 or 117.1% is primarily due to a net increase in noncapitalizable costs compared to the previous year.

The charts below illustrate the SFMTA’s operating revenues by source and expenses by category for FY2011 and FY2010.

Operating Revenue Comparative – FY2011 and FY2010



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

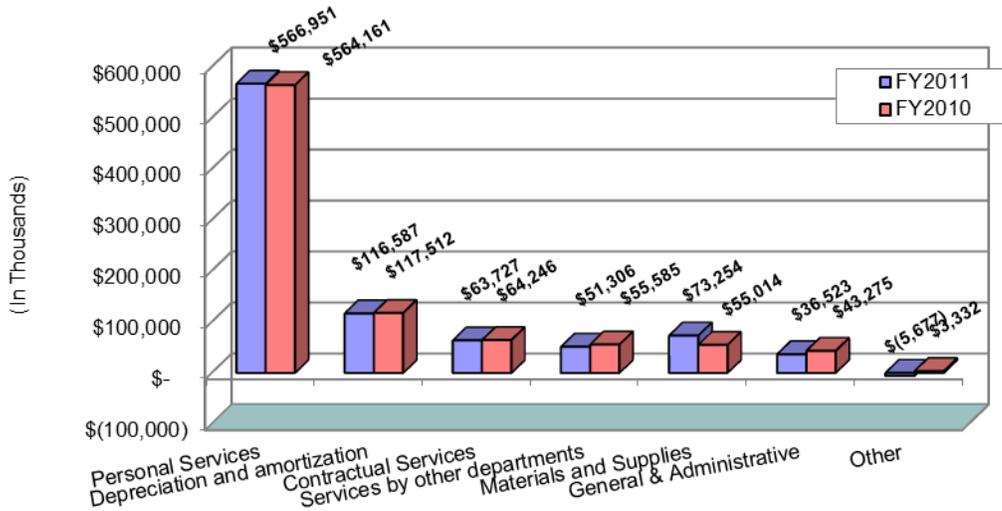
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Operating Expenses Comparative – FY2011 and FY 2010

**Operating Expenses Comparative - FY2011 and FY2010**





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### Management's Discussion and Analysis

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

advance Track, Overhead and Cable Car Rehabilitation Programs as well as Central Control and Communications and Radio Replacement Projects.

SFpark is a federal-funded demonstration of a new approach to parking management that includes demand-responsive pricing, real-time parking availability information, and new data management, dissemination, and analytical tools. In fiscal year 2011, the SFMTA finished the project's detailed planning, installed all related parking sensors, parking meters, roadway sensors, and parking garage programming updates. The project also completed the development of a transactional system to acquire and distribute real-time data, launched applications to disseminate that data, constructed a data interchange with the region's 511 service, developed a project website, and formally launched or initiated the pilot project.

Significant capital asset additions during the fiscal year 2011 included:

- Infrastructure – Majority of the \$99.6 million costs incurred are for the new Central Subway Project, Rail Replacement projects, reconstruction work on Overhead Program and Cable Car Replacement Projects. These projects are part of the on-going programs to keep the system in good repair and to replace aging parts of the track network.
- Equipment – The cost of \$26.3 million incurred during the fiscal year includes acquisition and design costs for the refurbishment and modernization of the Farebox Collection System in the subway stations, replacement cost for a new radio communication system on SFMTA fleets, on-Board Camera project, for the renovation and rehabilitation of streetcars and SFpark project costs.
- Building – Construction costs of \$10.6 million was incurred in fiscal year 2011 for the maintenance facility project at Islais Creek and Central Control and Communications Project.

Other significant capital asset additions during the fiscal year 2010 included:

- Infrastructure – Majority of the \$57.6 million costs incurred are for the new central subway project, as well as the rail replacement projects and reconstruction work on overhead replacement programs. These projects are part of the on-going program to keep the system in good repair and to replace aging parts of the track network.
- Equipment – The cost of \$28.9 million incurred during the fiscal year includes acquisition and design costs for the refurbishment and modernization of the farebox collection system in the subway stations, replacement cost for a new radio communication system on SFMTA fleets, Light rail wheel truing machines, an on-board camera project, and the renovation and rehabilitation of streetcars.
- Building – Construction costs of \$17.5 million was incurred in fiscal year 2010 for maintenance facility projects.

#### ***Debt Administration***

At June 30, 2011 and 2010, the SFMTA's debt obligations outstanding totaled \$46,802 and \$50,108, respectively. These amounts represent mostly bonds secured by revenue sources from parking garage revenues and meter collections; including \$707 and \$753 unamortized bond premium costs for 2011 and 2010, respectively. The SFMTA's total debt decreased by \$3,306 or 6.6% at June 30, 2011. The decrease was

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primarily due to maturities of existing debts. No bonds were issued during the year ending June 30, 2011. The following table summarizes the changes in debt between fiscal year 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Bonds payable	\$ 46,802	50,108
Total	\$ <u>46,802</u>	<u>50,108</u>

Additional information about the SFMTA's debt is presented in Note 7 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 paid to a debt payment undertaker whose repayment obligations is guaranteed by Financial Security Assurance, Inc., an "AAA/Aa3" rated bond insurance company.

Muni recorded deferred revenue in fiscal year 2002 of \$35.5 million for the difference between the amount received of \$388.2 million and the amount paid to the escrows of \$352.7 million. The deferred revenue amortized in fiscal year 2011 amounted to \$1.3 million.

In September 2003, after obtaining final approval from the SFMTA Board of Directors and the City's Board of Supervisors, Muni entered into a second leveraged lease-leaseback transaction for 21 Breda light rail vehicles (the 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. Muni deposited a portion of this amount into an escrow, and a portion paid to a debt payment undertaker whose repayment obligation is guaranteed by Financial Security Assurance, Inc., an "AAA/Aa3" rated bond insurance company. Approximately \$67.5 million of this head lease payment was deposited into two escrows. The deferred revenue amortized in fiscal year 2011 amounted to \$0.2 million.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Management's Discussion and Analysis

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(Dollars in thousands, unless otherwise noted)

### **Economic Factors and Next Year's Budget**

In the spring of 2010 the SFMTA Board adopted its second, two-year operating budget for FY 2010-2011 and FY 2011-2012. The approved FY 2011-2012 budget was \$780.6 million, an increase of \$5.6 million from the FY 2010-2011 approved budget of \$775 million. During 2011, the SFMTA had the opportunity to amend its originally adopted FY 2011-2012 budget for any known or anticipated changes. Although the Agency decided not to re-open its FY2011-2012 budget because the expectation was that expenditures and revenues would not significantly change and would remain within the Board approved thresholds, adjustments were made to reflect fringe benefit and inter-department work order budget increases. On the revenue side, the Agency reduced its parking fine and parking meter revenue budgets based on revised projections. Due to a better-than-expected performance in City's discretionary revenues, the SFMTA received a higher general fund contribution than originally anticipated and was able to rebalance its FY 2011-2012 budget to \$780.6 million.

The SFMTA will continue to face budgetary challenges in FY 2011-2012. Revenues are still flat and expenditures, particularly benefit expenses are expected to increase at an accelerated rate in subsequent years. With limited resources, the Agency must continue to strive for efficiency and maintain a fine balance between fiscal responsibilities and sustainable service delivery.

### **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 Finance and Information Technology Services, One South Van Ness Avenue, 8th Floor, San Francisco, CA 94103.

Questions regarding the City and County of San Francisco or 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.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

### (1) Description of Reporting Entity

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors. The SFMTA financial statements include the San Francisco Municipal Railway (Muni), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), the SFMTA's Sustainable Streets and Taxi Regulatory services, and five 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 fund in the City's Comprehensive Annual Financial Report.

Proposition E passed by the San Francisco voters in November 1999 amended the City Charter, calling for the creation of the SFMTA by consolidating Muni and Department of Parking and Traffic (now named as Sustainable Streets) by July 1, 2002. The incorporations are intended to support the City's TransitFirst Policy. 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 carries more than 200 million riders 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 manages 40 City-owned garages and metered parking lots. It also manages all traffic engineering functions within San Francisco, including the placement of signs, signals, traffic striping, curb markings, and parking meters. It also promotes the safe and efficient movement of people and goods throughout the City. In March 2009, the former Taxi Commission was merged with the SFMTA and has assumed responsibility for taxi regulation to advance reforms as well as upgrading conditions for drivers. SFMTA has regulatory power over the taxi industry and other motor vehicles for hire in San Francisco.

SFMRIC is a nonprofit corporation whose sole purpose is to provide capital financial assistance on behalf of Muni by purchasing equipment and improving facilities. SFMRIC has no employees.

The parking garages account for the activities of various non-profit corporations to provide financial and other assistance to the City to acquire land, construct facilities, and manage various facilities.

### (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. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. The SFMTA applies all Governmental Accounting Standards Boards (GASB) Statements, as well as the Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(Continued)

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

The SFMTA distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses primarily result from providing transportation, street and parking services in connection with the SFMTA's principal ongoing operations. The principal operating revenues are generated from passenger fares, meter and garage parking fees and fees collected from advertisements on the SFMTA property. Operating expenses of the SFMTA include employment costs, materials, services, depreciation on capital assets and other expenses related to the delivery of transportation and parking services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**(b) Cash and Cash Equivalents**

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. The SFMTA's portion of this pool is displayed on the statement of net assets as "Deposits 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 assets and recognizes the corresponding change in fair value of investments in the year in which the change occurred.

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 maturities of three months or less are considered to be cash equivalents.

All the \$10,895 and \$11,295 restricted deposits and investments of SFMTA which are held outside the City Treasury, as of June 30, 2011 and 2010, respectively, are considered cash equivalents as they meet the definition of cash equivalents.

**(c) Investments**

In accordance with GASB Statement No. 31, the SFMTA records investments at fair value with changes in fair value recorded as a component of nonoperating revenue (expenses and losses).

**(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.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

**(e) Capital Assets**

Capital assets are stated at cost. All construction-in-progress items over \$100,000 and nonconstruction-in-progress items over \$5,000 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, equipment, and infrastructure. Generally no depreciation is recorded in the year of acquisition and a full year's depreciation is taken in the year of disposal.

**(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, equipment, infrastructures 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) Accrued Vacation and Sick Leave**

Accrued vacation pay, which vests and may be accumulated up to ten 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, 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.

**(h) 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 by the SFMTA and by 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. However, 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. With the inception of the Third Street Light Rail Project, the SFCTA is also a primary local funding source for capital projects.

(Continued)

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

**(i) *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. Federal operating assistance is distributed to the SFMTA by the FTA after approval by the MTC.

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

**(j) *Transit Impact Development Fees***

Transit Impact Development Fees (TIDF) are restricted for the capital and operating costs of increased peak period transit service associated with new office construction in downtown San Francisco. These fees are recorded as nonoperating revenues in the year in which they are assessed.

**(k) *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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(l) *Reclassifications***

Certain reclassifications were made in the 2010 financial statements to conform to the 2011 presentation.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

**(3) Net Assets**

Net assets as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Restricted assets:		
Deposits and investments with City Treasury	\$ 6,372	9,293
Deposits and investments outside City Treasury (see note below)	10,895	11,295
Receivables	<u>3,797</u>	<u>4,081</u>
Total restricted assets	<u>21,064</u>	<u>24,669</u>
Restricted liabilities of:		
Others	<u>(1,166)</u>	<u>(4,407)</u>
Total restricted liabilities	<u>(1,166)</u>	<u>(4,407)</u>
Restricted assets, net	\$ <u>19,898</u>	\$ <u>20,262</u>
Net assets:		
Restricted:		
Debt service	\$ 3,420	3,408
Other purposes	<u>16,478</u>	<u>16,854</u>
Total restricted net assets	19,898	20,262
Unrestricted	(41,254)	(105,630)
Invested in capital assets, net of related debt	<u>1,982,276</u>	<u>1,918,849</u>
Net assets	\$ <u>1,960,920</u>	\$ <u>1,833,481</u>

**(4) Deposits and Investments**

The SFMTA maintains its deposits and investments with the City Treasury and a portion of its restricted asset deposits as part of the City's pool of deposits 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 which 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 deposits and investments. As of June 30, 2011 and 2010, the SFMTA's unrestricted deposits and investments with City Treasury were \$286,640 and \$232,862, respectively. This constitutes 6.56% of the City's investment pool as of June 30, 2011.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

The restricted deposits and investments outside the City Treasury are mostly related to issuance of bonds with the trustees. As of June 30, 2011 and 2010, the SFMTA had restricted deposits and investments with the trustees of \$10,895 and \$11,295, respectively. These deposits meet the definition of cash and cash equivalents as of June 30, 2011 and 2010, respectively.

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

<b>Investment maturities (in months)</b>			
<b>Under 1</b>	<b>1 to less than 6</b>	<b>6 to less than 12</b>	<b>12 – 60</b>
1.3%	13.2%	13.4%	72.1%

The restricted deposits and investments outside the City Treasury are held by independent trustees.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

**(5) Capital Assets**

Capital asset balances and their movements as of and for the year ended June 30, 2011 and 2010 are as follows:

	<u>Balance, July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2011</u>
Capital assets not being depreciated:				
Land	\$ 26,245	256	—	26,501
Construction-in-progress	<u>181,306</u>	<u>175,378</u>	<u>(70,152)</u>	<u>286,532</u>
Total capital assets not being depreciated	<u>207,551</u>	<u>175,634</u>	<u>(70,152)</u>	<u>313,033</u>
Capital assets being depreciated:				
Building structures and improvements	605,761	10,260	(258)	615,763
Equipment	1,193,521	14,171	(2,464)	1,205,228
Infrastructure	<u>1,117,666</u>	<u>47,469</u>	<u>—</u>	<u>1,165,135</u>
Total capital assets being depreciated	<u>2,916,948</u>	<u>71,900</u>	<u>(2,722)</u>	<u>2,986,126</u>
Less accumulated depreciation for:				
Building structures and improvements	200,850	13,571	(2)	214,419
Equipment	582,485	70,569	(2,046)	651,008
Infrastructure	<u>372,207</u>	<u>32,447</u>	<u>—</u>	<u>404,654</u>
Total accumulated depreciation	<u>1,155,542</u>	<u>116,587</u>	<u>(2,048)</u>	<u>1,270,081</u>
Total capital assets being depreciated, net	<u>1,761,406</u>	<u>(44,687)</u>	<u>(674)</u>	<u>1,716,045</u>
Total capital assets, net	<u>\$ 1,968,957</u>	<u>130,947</u>	<u>(70,826)</u>	<u>2,029,078</u>

Certain buses, equipment and land were disposed during 2011. The net gain for sold assets is \$1,066.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

Capital asset balances and their movements as of and for the year ended June 30, 2010 and 2009 are as follows:

	<u>Balance, July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2010</u>
Capital assets not being depreciated:				
Land	\$ 26,245	—	—	26,245
Construction-in-progress	<u>110,563</u>	<u>127,351</u>	<u>(56,608)</u>	<u>181,306</u>
Total capital assets not being depreciated	<u>136,808</u>	<u>127,351</u>	<u>(56,608)</u>	<u>207,551</u>
Capital assets being depreciated:				
Building structures and improvements	594,010	11,751	—	605,761
Equipment	1,176,718	36,984	(20,181)	1,193,521
Infrastructure	<u>1,107,755</u>	<u>9,911</u>	<u>—</u>	<u>1,117,666</u>
Total capital assets being depreciated	<u>2,878,483</u>	<u>58,646</u>	<u>(20,181)</u>	<u>2,916,948</u>
Less accumulated depreciation for:				
Building structures and improvements	187,507	13,343	—	200,850
Equipment	530,139	71,947	(19,601)	582,485
Infrastructure	<u>339,985</u>	<u>32,222</u>	<u>—</u>	<u>372,207</u>
Total accumulated depreciation	<u>1,057,631</u>	<u>117,512</u>	<u>(19,601)</u>	<u>1,155,542</u>
Total capital assets being depreciated, net	<u>1,820,852</u>	<u>(58,866)</u>	<u>(580)</u>	<u>1,761,406</u>
Total capital assets, net	\$ <u><u>1,957,660</u></u>	<u><u>68,485</u></u>	<u><u>(57,188)</u></u>	<u><u>1,968,957</u></u>

Certain buses and equipment were disposed and retired during 2010. The net gain for sold assets is \$16 while the net loss on retired assets totaled to \$1,147.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

Construction-in-progress consists of the following projects as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Rail replacement	\$ 16,011	16,131
Historic Street Car Renovation	30	8,466
Farebox Rehabilitation	11,000	10,730
Cable Car Propulsion	14,365	3,454
Islais Creek-Woods Annex	13,037	8,816
Trolley Overhead Reconstruction	12,598	11,525
New Central Subway	141,287	70,571
Motor Bus Hybrid Procurement	9,054	5,620
Light rail vehicles	—	2,771
Wayside Fare Collection	19,374	4,775
LRV Tracks	—	9,142
Facility Upgrades	17,827	6,222
Sub-Station Traction	—	6,862
SFPark Meter	13,148	2,279
Radio Replacement	9,330	7,582
Security Projects	3,873	—
Others	5,598	6,360
	<u>\$ 286,532</u>	<u>181,306</u>

**(6) Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses were \$68,743 and \$64,531 at June 30, 2011 and 2010, 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 organization for goods and services, and construction contracts retainage payable.

	<u>2011</u>	<u>2010</u>
Vouchers payable	\$ 40,012	40,548
Accruals	23,505	22,671
Contracts retainage	2,809	1,312
Total accounts payable and accrued expenses	<u>\$ 66,326</u>	<u>64,531</u>

**(7) Long-Term Debt, Loans and Other Payables**

SFMRIC is authorized to issue debt to fund each of its programs under separate indentures. Transit Equipment Progress bonds totaling \$51,500 have been authorized, of which \$30,500 is available for issuance and none are outstanding. Transit Improvement Program (TIP) bonds amounting to \$44,000 have

(Continued)

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

been authorized, of which \$7,800 is available for issuance. As of June 30, 2011 and 2010, no bonds were outstanding under the TIP.

The City's electorate has approved various lease revenue bond propositions for the SFMTA for the construction of parking garages and surface parking lots in the City's neighborhood. Interest rates ranges from 3.5% to 6.0%.

The following is a summary of long-term obligation of the SFMTA:

	<u>Final</u> <u>maturity date</u>	<u>Remaining</u> <u>interest rate</u>	<u>Balance</u> <u>June 30,</u> <u>2011</u>	<u>Balance</u> <u>June 30,</u> <u>2010</u>
Parking and traffic:				
Revenue bonds	2020	4.45% – 5.00%	\$ 14,385	15,635
Lease Revenue bonds	2022	4.80% – 5.50%	5,479	5,846
Downtown parking – parking revenue refunding bonds	2018	4.45% – 5.75%	7,076	7,918
Ellis–O'Farrell – parking revenue refunding bonds	2017	3.50% – 4.7%	2,983	3,409
Uptown parking – revenue bonds	2031	4.50% – 6.00%	<u>16,879</u>	<u>17,300</u>
Total long-term obligations			<u>\$ 46,802</u>	<u>50,108</u>

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

The changes in long-term obligation for the SFMTA for years ended June 30, 2011 and 2010 are as follows:

	<b>Balance July 1, 2010</b>	<b>Net increases</b>	<b>Net decreases</b>	<b>Balance June 30, 2011</b>	<b>Amount due within one year</b>
Bonds payable:					
Revenue bonds	\$ 43,535	—	(2,895)	40,640	3,025
Lease revenue bonds	5,820	—	(365)	5,455	380
Add/less deferred amounts:					
For issuance premiums	753	—	(46)	707	—
Total bonds payable	50,108	—	(3,306)	46,802	3,405
Accrued vacation and sick leave	28,330	19,134	(20,383)	27,081	15,585
Accrued workers' compensation	91,997	19,816	(18,792)	93,021	14,998
Accrued claims	46,921	11,922	(10,841)	48,002	20,393
Deferred revenue and other deferred credits	38,056	2,867	(6,963)	33,960	8,626
Total long-term obligations	\$ 255,412	53,739	(60,285)	248,866	63,007
	<b>Balance July 1, 2009</b>	<b>Net increases</b>	<b>Net decreases</b>	<b>Balance June 30, 2010</b>	<b>Amount due within one year</b>
Bonds payable:					
Revenue bonds	\$ 45,360	—	(1,825)	43,535	2,895
Lease revenue bonds	6,165	—	(345)	5,820	365
Add/less deferred amounts:					
For issuance premiums	794	—	(41)	753	—
Total bonds payable	52,319	—	(2,211)	50,108	3,260
Notes, loans and other payables	2,482	—	(2,482)	—	—
Accrued vacation and sick leave	28,642	18,018	(18,330)	28,330	16,873
Accrued workers' compensation	90,085	17,680	(15,768)	91,997	15,506
Accrued claims	47,465	19,959	(20,503)	46,921	20,349
Deferred revenue and other deferred credits	43,135	3,860	(8,939)	38,056	11,213
Total long-term obligations	\$ 264,128	59,517	(68,233)	255,412	67,201

(Continued)

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

The bond debt service requirements are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Revenue bonds interest</u>	<u>Total</u>
2012	\$ 3,405	2,426	5,831
2013	3,575	2,267	5,842
2014	3,750	2,097	5,847
2015	3,930	1,917	5,847
2016	4,125	1,724	5,849
2017 – 2021	16,462	5,525	21,987
2022 – 2026	4,750	2,722	7,472
2027 – 2031	5,500	1,255	6,755
2032 – 2033	1,305	39	1,344
	<u>\$ 46,802</u>	<u>19,972</u>	<u>66,774</u>

Note: Principal amount includes bond premium of \$707

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 funds to be maintained are to secure the payment of principal and interest, to provide for the operating obligations of the facility and safekeeping of surplus funds. These funds are as follows:

*Bond Reserve Fund* accumulates fund for the Bond Reserve Fund requirement.

*Revenue Fund* receives corporate revenues.

*Operating and Maintenance Fund* accumulates funds to pay operation and maintenance expenses.

*Principal/Sinking and Interest Fund* accumulates funds for the amount of principal and interest becoming due and payable on the outstanding serial bonds on the next scheduled maturity date.

*Repair and Replacement Fund* accumulates funds primarily for repairs and replacements to the garage.

The Trustee transfers any remaining amounts in the Revenue Fund to the *Surplus Revenue Fund* after first making deposits to the above funds. No later than June 26th of each year, the nonprofit garage corporations transfer 85% of all monies deposited in the Surplus Revenue Fund to Muni and Recreation & Park accounts.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

### (8) Employee Benefit Plans

#### (a) *Retirement Plan – City and County of San Francisco*

##### **Plan Description**

The City has a single-employer defined benefit retirement plan (the Plan) which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The Plan covers substantially all full-time employees of the SFMTA along with other employees of the City. The Plan provides basic retirement, disability, and death benefits based on specified percentages of final average salary, and provide cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code are the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a Citywide level publicly available financial report that includes financial statements and required supplemental information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102, or by calling (415) 487-7020.

##### **Funding Policy**

Contributions are made to the basic plan by both the SFMTA and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 2011 and 2010 varied from 7% to 8% as a percentage of covered payroll. The SFMTA is required to contribute at an actuarially determined rate. For fiscal year 2011 and 2010, the actuarially determined contribution rate as a percentage of covered payroll was 13.56% and 9.49%, respectively. The SFMTA's required contribution was approximately \$41.7 million in 2011 and \$30.4 million in 2010. The SFMTA contributed 100% of their required contribution.

The SFMTA's contributions to the Retirement System on behalf of its employees amounted to \$10,451 and \$12,778 for the years ended June 30, 2011 and 2010, which were equal to the required employee contributions for the year.

Refer to the City's Comprehensive Annual Financial Report (CAFR) for the other required disclosures related to the City's pension plan.

#### (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 employees and permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

(Continued)

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands, unless otherwise noted)

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 \$72,729 and \$68,371 in fiscal years 2011 and 2010, respectively, is determined by a charter provision based on similar contributions made by the ten most populous counties in California.

Included in these amounts are \$24,898 and \$21,695 for fiscal year 2011 and 2010, respectively, to provide postretirement benefits for retired employees, on a pay-as-you-go basis. No additional City allocation was made for both fiscal years 2011 and 2010, respectively, to SFMTA's contribution allocation on payments to Health Service System for postretirement health benefits.

The City has determined a City-wide 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 45, by the City's actuaries. The City's allocation of the OPEB related cost to the SFMTA for the years ended June 30, 2011 and 2010 based upon its percentage of City-wide 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, 2011 and 2010, the amounts contributed to the plan and changes in the net OPEB obligations:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 50,338	47,192
Interest on net OPEB obligation	4,747	3,294
Adjustment to ARC	<u>(3,721)</u>	<u>(2,583)</u>
Annual OPEB cost	51,364	47,903
Contribution made	<u>(24,898)</u>	<u>(21,695)</u>
Increase in net OPEB obligation	26,466	26,208
Net OPEB obligation, beginning of fiscal year	<u>99,993</u>	<u>73,785</u>
Net OPEB obligation, end of fiscal year	<u>\$ 126,459</u>	<u>99,993</u>

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 for Citywide level that includes the complete note

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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disclosures and required supplementary information related to the City's post retirement 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.

**(9) 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 participant. 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 will continue on a year-to-year basis thereafter, 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 \$6.5 million and \$7.3 million for operating needs in fiscal years 2011 and 2010, respectively. The PCJPB's annual financial statements are publicly available.

**(10) 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 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.

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

**(a) General Liability**

The SFMTA is self-insured up to the first \$5 million per accident occurrence, and for over the threshold, SFMTA has purchased an excess liability insurance policy. 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. Claim liabilities are actuarially-

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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 scheduled facilities 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 a third party administrator under SFMTA's oversight and management. SFMTA continues to develop and implement programs to mitigate growth of costs such as the transitional work programs which bring injured workers back to work on modified duty. Other programs include injury prevention, injury investigation and medical treatment bills review.

**(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.

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 assets.

See the changes in workers' compensation and general liabilities for claims paid and incurred claims and changes in estimate in Footnote 7, Long-term Debt, Loans and Other Payables.

**(11) Transactions with the City**

The amount of operating subsidy provided to the SFMTA each year is limited to the amount budgeted by the City. Such subsidy is recognized as revenue in the year received. At times, a budget deficit can be caused by a revenue shortfall for which there is an expectation that those or other revenues will be received in the subsequent year relating to the prior years. In those circumstances, the City allows the SFMTA to show a deficit on a budgetary basis. This policy does not provide cash to finance receivables. Consequently, the SFMTA at times maintains a cash overdraft with the City, which can be repaid only through collection of receivables.

The General Fund support from the City reflected in the accompanying financial statements includes a total revenue transfer of \$254.9 million and \$236.9 million in fiscal year 2011 and 2010, respectively.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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### **(12) 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, 2011 and 2010, the SFMTA had approved capital grants with unused balances amounting to \$574.0 million and \$580.5 million, respectively. Capital grants receivable as of June 30, 2011 and 2010 totaled \$73.8 million and \$36.0 million, respectively.

The SFMTA also receives operating assistance from various federal, state, and local sources including Transit Development Act funds and sales tax allocations. As of June 30, 2011 and 2010, the SFMTA had various operating grants receivable of \$12.9 million and \$18.7 million, respectively. In fiscal years 2011 and 2010, the SFMTA's operating assistance also includes BART Americans with Disability Act (ADA) revenues of \$1.1 million and \$1.2 million, respectively, and other federal, state, and local grants of \$19.4 million and \$37.3 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 years 2011 and 2010, the SFCTA approved \$43 million and \$150 million, respectively, in new capital grants and the SFMTA received payments totaling \$32.4 million and \$12.4 million, respectively. As of June 30, 2011 and 2010, the SFMTA had \$8.8 million and \$6.9 million, respectively, in capital grants due from the SFCTA. Similarly, the SFMTA receives operating grants from SFCTA. During the fiscal years 2011 and 2010, SFCTA approved \$14.7 million and \$15.6 million, respectively, in new operating grants and SFMTA received payments totaling \$11.1 and \$16.6 million, respectively. The SFMTA had \$2.5 million and \$0.9 million in operating grants due from the SFCTA as of June 30, 2011 and 2010, respectively.

Proposition 1B is a ten-year \$20 billion transportation infrastructure bond that was approved by 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) that is funding solely for public transit projects. The SFMTA received cash totaling \$24 million in fiscal year 2011 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 eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal year 2011, \$25 million drawdowns were made from the funds for various eligible projects costs. In fiscal year 2010, the drawdowns totaled \$25.6 million.

### **(13) 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.

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(Dollars in thousands, unless otherwise noted)

### (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 2035. These agreements are accounted for as operating leases. Rent expense was \$12.4 million and \$12.1 million for the year ended June 30, 2011 and 2010, respectively.

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

Years ending June 30:	
2012	\$ 10,387
2013	10,473
2014	10,537
2015	10,773
2016	9,312
2017 – 2021	46,017
2022 – 2026	48,721
2027 – 2031	56,492
2032 – 2036	67,832
Total	<u>\$ 270,544</u>

### (c) *Other Commitments*

As of June 30, 2011, the SFMTA has outstanding commitments of approximately \$175.5 million with third parties for various capital projects. Grant funding is available for the majority of this amount. The SFMTA also has outstanding commitments of approximately \$31.9 million with third parties for noncapital expenditures. Various local funding sources are used to finance these expenditures.

The SFMTA is also committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. SFMRIC's board of directors has authorized SFMRIC to extend financial guarantees to the SFMTA for certain projects. The projects for which SFMRIC has guaranteed funding and the maximum amounts of such guarantees as of June 30, 2011, are as follows:

Wayside/Central Control System	\$ 77
Rail replacement	<u>1,000</u>
Total	<u>\$ 1,077</u>

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

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

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of these matters will not have a material effect on the financial position or changes in net assets of SFMTA.

### **(14) 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 the leveraged lease leaseback transactions for over 118 and 21 Breda light rail vehicles, the Tranche 1 and Tranche 2 Equipment, respectively. Each transaction also referred to as "sale in lease out" or "SILO", was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. Under the respective sublease, Muni may exercise an option to purchase the Tranche 1 Equipment on specified dates between November 2026 through January 2030 and Tranche 2 Equipment in January 2030, in each case, following the scheduled sublease expiration dates. During the terms of the subleases, Muni maintains custody of the Tranche 1 Equipment and Tranche 2 Equipment and is obligated to insure and maintain the Tranche 1 and Tranche 2 Equipment throughout the life of the sublease.

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 lease. Muni deposited a portion of the prepaid head lease payments into an escrow and deposited a portion 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 is currently rated "AA+" by Standard & Poor's ("S&P") and "Aa3" by Moody's Investor Services ("Moody's"). The terms of the SILO documents require the Muni to replace AGM, as successor to FSA, as guarantor of debt payment undertaker if its ratings are downgraded below BBB+/Baa1 by S&P and Moody's, respectively. AGM's current ratings satisfy this requirement. In addition, FSA provided a surety policy with respect to each SILO to guarantee potential payments in the event such transaction is terminated in whole or in part prior to the sublease expiration

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

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date. The terms of the SILO document require Muni to replace AGM, as successor to FSA, as surety provider, if AGM's ratings are downgraded below "AA-/Aa3" by S&P and Moody's, respectively. AGM's current ratings satisfy this requirement. Both S&P and Moody's have "Negative" outlooks on AGM. On August 25, 2011, S&P published a rating criteria article, Bond Insurance Rating Methodology and Assumptions, in which it noted that the new bond insurance rating criteria could result in the lowering of the financial strength ratings of investment grade bond insurers by one or more rating categories and that any such rating changes would occur after its review of third quarter 2011 financial statements but no later than November 30, 2011. It is not known whether or to what level downgrades, if any, may occur. Failure of Muni to replace AGM following a downgrade within a specified period of time could allow the investors, in effect, to issue a default notice to Muni. Because replacement of AGM in either of its roles as debt payment undertaker guarantor or surety may not be practicable, Muni could become liable to pay termination costs as provided in certain schedules of the SILO transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2011 after giving effect to the market value of the securities in the escrow accounts would approximate \$109.2 million. The scheduled termination costs increase over the next several years.

The escrows were invested in U.S. agency securities with maturity dates that correspond to the purchase option dates in each sublease.

Although these escrows do not represent a legal defeasance of Muni's obligations under the sublease, 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 are not recorded on the financial statements of the SFMTA as of June 30, 2011.

As a result of the cash transactions above, Muni recorded deferred revenue of \$35.5 million and \$4.4 million in fiscal year 2002 and 2003 respectively, for the difference between the amounts received of \$388.2 million and \$72.6 million, respectively, and the amounts paid to the escrows and the debt payment undertaker of \$352.7 million and \$67.5 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were \$1.3 million and \$0.2 million in fiscal year 2011.

As of June 30, 2011, the outstanding payments to be made on the sublease through the end of the sublease term are \$27.6 million and \$7.2 million for Tranche 1 and Tranche 2, respectively, and the payments to be made on the purchase option, if exercised, would be \$680.8 million and \$154.2 million. These payments are to be funded from the amounts in escrow and by the payment undertaker. If Muni does not exercise the purchase option, Muni would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

#### **(15) Subsequent Event**

On October 4, 2011, the Board of Directors of the San Francisco Municipal Railway Improvement Corporation authorized the voluntary dissolution of SFMRIC pursuant to State of California Corporations

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Code Section 6610 *et seq.* and transferred all remaining funds to the San Francisco Municipal Transportation Agency.

## **SUPPLEMENTAL SCHEDULES**

**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 Supervisor,  
and San Francisco Municipal Transportation Agency Board of Directors  
City and County of San Francisco, California:

We have audited the financial statements of the San Francisco Municipal Transportation Agency (SFMTA) of the City and County of San Francisco, California (the City) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 28<sup>th</sup>, 2011. We conducted our audit 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered SFMTA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SFMTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SFMTA's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify and deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SFMTA's financial statements are free of 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*.

This report is intended solely for the information and use of the management, Mayor, Board of Supervisors, San Francisco Municipal Transportation Agency Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

October 28<sup>th</sup>, 2011