



SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Financial Statements
and Supplemental Schedules

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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KPMG LLP
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San Francisco, CA 94105

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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, 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 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 13 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 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 inquires of management about the methods of preparing the information for consistency with management's responses to our inquires, 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.

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 audits 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.

KPMG LLP

October 26, 2012

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis

June 30, 2012 and 2011

(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, 2012. 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 \$2,095,480 and \$1,960,920 at the close of fiscal years ended June 30, 2012 and 2011, respectively.
- The SFMTA's total net assets increased by \$134,560 in 2012 and increased by \$127,439 in 2011 over the prior fiscal years.
- Total net amount invested in capital assets were \$2,072,355 and \$1,982,276 at June 30, 2012 and 2011, respectively, an increase of 4.5% and an increase of 3.3% over the balances of \$1,982,276 and \$1,918,849 at June 30, 2011 and 2010, 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), the operations of the Sustainable Streets (previously named as Department of Parking and Traffic) and the Taxi regulatory operations, and the five non-profit parking garage corporations. Muni provides transit service within the City and County of San Francisco (the City). The Sustainable Streets operation manages 40 City-owned parking garages, metered parking lots and all traffic engineering functions with the City. The operations of the Taxi services regulate the taxi industry and other motor vehicles for hire in San Francisco. The non-profit parking garage corporations operate 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 statements of net assets (found on pages 14 and 15) present information on all of the SFMTA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or 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, 2012 and 2011.

The statements of revenues, expenses, and changes in net assets (found on page 16) present information showing how the SFMTA's net assets changed during the fiscal years ending June 30, 2012 and 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 statements of cash flows (found on pages 17 and 18), present information about the cash receipts and payments of the SFMTA during the fiscal years ended June 30, 2012 and 2011. These statements show the

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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 39 of this report.

Other Information

The supplemental schedules found on pages 39 through 54 of this report are presented for the purpose of additional analysis and are not a required part of the financial statements.

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 \$2,095,480 at the close of the most recent fiscal year.

	2012	2011	2010
Assets:			
Total current assets	\$ 584,797	442,559	354,070
Total restricted assets	17,858	21,064	24,669
Total other noncurrent assets	1,608	1,817	1,883
Capital assets, net	2,115,706	2,029,078	1,968,957
Total assets	2,719,969	2,494,518	2,349,579
Liabilities			
:			
Total current liabilities	302,190	221,280	227,894
Total noncurrent liabilities	322,299	312,318	288,204
Total liabilities	624,489	533,598	516,098
Net assets:			
Invested in capital assets, net of related debt	2,072,355	1,982,276	1,918,849
Restricted net assets	16,617	19,898	20,262
Unrestricted net assets	6,508	(41,254)	(105,630)
Total net assets	\$ 2,095,480	1,960,920	1,833,481

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Fiscal Year 2012

The SFMTA's net assets increased by \$134,560 compared to the prior year. The increase in net assets is partly attributable to increases in operating revenues, nonoperating revenues, capital contributions and transfers, offset by increases in operating expenses.

The largest portion of the SFMTA's net assets (\$2,072,355 as of June 30, 2012) 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 \$3,484,694 is offset by accumulated depreciation of \$1,368,988 and related debt of \$43,351. 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 and unrestricted net assets. The restricted assets include deposits, investments, and receivables.

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.

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

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

Years ended June 30, 2012, 2011, and 2010

		<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues:				
Total operating revenues	\$	350,464	334,140	311,311
Total nonoperating revenues, net		245,316	243,392	223,978
Capital contributions:				
Federal		129,226	134,310	88,038
State and others		<u>87,288</u>	<u>64,671</u>	<u>44,883</u>
	Total capital contributions	216,514	198,981	132,921
Net transfers		<u>278,961</u>	<u>253,597</u>	<u>239,058</u>
	Total revenues and net transfers	1,091,255	1,030,110	907,268
Expenses:				
Total operating expenses		<u>956,695</u>	<u>902,671</u>	<u>903,125</u>
	Change in net assets	134,560	127,439	4,143
Total net assets – beginning		<u>1,960,920</u>	<u>1,833,481</u>	<u>1,829,338</u>
Total net assets – ending	\$	<u><u>2,095,480</u></u>	<u><u>1,960,920</u></u>	<u><u>1,833,481</u></u>

Fiscal Year 2012

Total revenues and net transfers for the year ended June 30, 2012 were \$1,091,255, an increase of \$61,145, or 5.9%, compared to the prior fiscal year. This is due to increases in all revenue categories (i.e., operating, nonoperating, capital contributions and net transfers).

Operating revenues increased by \$16,324, or 4.9% compared to prior year. This is comprised mostly of increases in the passenger fares by \$10,791 or 5.7% and parking and transportation revenue category by \$5,831 or 5.6%, offset by \$298 net decrease from the other operating revenue categories. The passenger fares increase is attributable to various factors, including increased ridership, implementation of smart card technology for fare payment, and improved transit enforcement strategies. For parking and transportation revenues, the increase in parking meter collections was attributable to new meters which accepted credit cards and cell phone payments as well as demand based pricing.

The nonoperating revenues include operating support received from other sources, primarily federal and state operating grants, parking permits, fines and interest income. Nonoperating revenues slightly increased by \$1,924

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or 0.8%, with increase in interest income due to higher cash balances and gain from sale of assets, which were offset by decreases in operating grants and parking fines revenues.

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 2012 compared to prior year. This resulted in the significant increase in capital contribution by \$17,533 or 8.8% when compared to fiscal year 2011. Net transfers increased by \$25,364 or 10.0% in fiscal year 2012 due to the increase in City's General Fund and San Francisco County Transportation Authority subsidies compared to prior year.

Total operating expenses for the year ended June 30, 2012 were \$956,695, an increase of \$54,024, or 6.0%, compared to the previous year. The resulting net increase is comprised of trend changes from various expense categories. Personnel service costs increased by \$32,993, or 5.8%, attributable to higher medical and retirement fringe benefits and other postemployment benefits (OPEB) compared to prior year. Contractual services increased by \$2,453 or 3.8% and was mainly due to repairs and major maintenance of vehicles, and increased costs of security. Materials and supplies increased by \$13,189, or 18.0%, and were mainly in vehicle repair inventory parts or supplies and fuel. Depreciation expense slightly increased by \$1,931, or 1.7% compared to prior year. General and administrative expenses decreased by \$6,154 or 16.9% mainly due to lower judgment and claims costs compared to prior year. Services provided by other city departments increased by \$2,988 or 5.8% in fiscal year 2012 mainly for police services, allocated share of a citywide payroll project and citywide telecommunications services. The increase in other operating expense category by \$6,624 or 116.7% is primarily due to decrease in recoverable costs as well as an increase in paratransit expenses compared to the previous year.

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).

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

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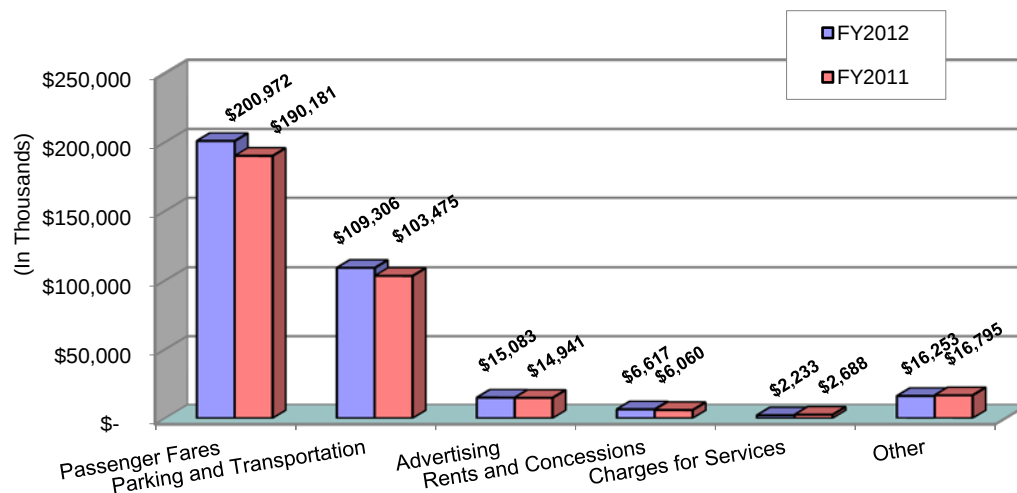
(Dollars in thousands, unless otherwise noted)

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.

The charts below illustrate the SFMTA's operating revenues by source and expenses by category for FY2012 and FY2011.

Operating Revenue Comparative - FY2012 and FY2011



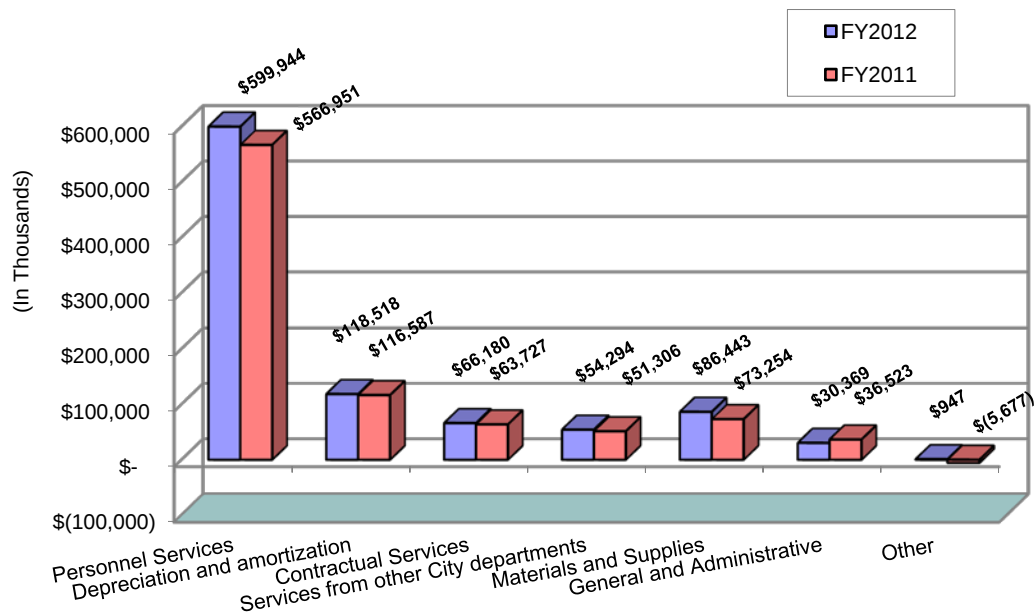
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Operating Expenses Comparative - FY2012 and FY2011



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Capital Assets and Debt Administration

Capital Assets

The SFMTA's investment in capital assets amounts to \$2,115,706, net of accumulated depreciation at June 30, 2012. This investment includes land, building structures and improvements, equipment, infrastructure, intangibles and construction-in-progress. The increase in capital assets is \$86,628 or 4.3%, compared to the previous year. This increase is attributed to continued construction work for new and existing projects.

Summary of Capital Assets

	<u>Balance, June 30, 2012</u>	<u>Balance, June 30, 2011</u>	<u>Balance, June 30, 2010</u>
Capital assets not being depreciated:			
Land	\$ 41,495	26,501	26,245
Construction-in-progress	422,361	286,532	181,306
Total capital assets not being depreciated	463,856	313,033	207,551
Capital assets being depreciated:			
Building structures and improvements	633,377	615,763	605,761
Equipment	1,212,258	1,205,228	1,193,521
Infrastructure	1,175,203	1,165,135	1,117,666
Total capital assets being depreciated	3,020,838	2,986,126	2,916,948
Less accumulated depreciation for:			
Building structures and improvements	227,733	214,419	200,850
Equipment	703,068	651,008	582,485
Infrastructure	438,187	404,654	372,207
Total accumulated depreciation	1,368,988	1,270,081	1,155,542
Total capital assets being depreciated, net	1,651,850	1,716,045	1,761,406
Total capital assets, net	\$ 2,115,706	2,029,078	1,968,957

Land increase of \$15 million is due to acquisitions related to the New Central Subway (Phase II of the Third Street Light Rail Project) and purchase of property to centrally house various shops.

Construction-in-progress is made up of various transit, pedestrian and bike projects. The four projects that have the highest balances on June 30, 2012, are the Central Subway, rail replacement, Islais Creek-Woods Annex and wayside fare collection. The Central Subway Project proceeded with the detail design and construction. This project will link the existing 5.2 mile Phase I T-line, beginning at CalTrain and 4th Street and King Streets, to BART, Union Square and Chinatown to the north. The project completed utility relocation on Stockton Street and utility vault installations/water tie-ins on Geary near Stockton. It continued utility relocations on O'Farrell Street, continued sidewalk and basement demolitions on west side of Stockton between O'Farrell and Market

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Street and completed the trolley re-route work on Sutter, Mason and 5th Streets. The project also issued 100% Design Packages for the Chinatown, Moscone and Union Square Market Street Stations as well the Notice To Proceed for "Tunnel Boring Machine Launch Box" contract. The SFMTA received SFCTA approval of \$57 million in Prop. K funds for Tunnel Contract.

The SFMTA received an additional \$35 million from Federal Transit Administration (FTA) awarded in August, 2011 for the second phase of Islais Creek Maintenance Facility Project. Additional funds were received to advance Track, Overhead and Cable Car Rehabilitation Programs as well as Central Control and Communications and Radio Replacement Projects.

Similar with fiscal year 2011, the following significant capital asset additions during the fiscal year 2012 included:

- Infrastructure – Majority of the \$143.5 million costs incurred are for the new Central Subway Project, Rail Replacement projects, reconstruction work on Overhead Program and Train Control System 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 \$33.2 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, the renovation and rehabilitation of streetcars and SFpark project costs.
- Building – \$1.4 million were incurred in fiscal year 2012 related to escalator rehabilitation project.

Other 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.

Debt Administration

At June 30, 2012 and 2011, the SFMTA's debt obligations outstanding totaled \$43,351 and \$46,802, respectively. These amounts represent mostly bonds secured by revenue sources from parking garage revenues and meter collections; including \$661 and \$707 unamortized bond premium costs for 2012 and 2011, respectively. The SFMTA's total debt decreased by \$3,451 or 7.4% at June 30, 2012. The decrease was primarily due to maturities

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of existing debts. No bonds were issued during the year ending June 30, 2012. The following table summarizes the changes in debt between fiscal year 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Bonds payable	\$ 43,351	46,802
Total	\$ <u>43,351</u>	<u>46,802</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 Assured Guaranty Municipal Corp (AGM) as successor to Financial Security Assurance, Inc., a 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 years 2012 and 2011 amounted to \$1.3 million and \$1.3 million, respectively.

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 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. The deferred revenue amortized in fiscal years 2012 and 2011 amounted to \$0.2 million and \$0.2 million, respectively.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis

June 30, 2012 and 2011

(Dollars in thousands, unless otherwise noted)

Economic Factors and Next Year's Budget

FY 2012 is the second year of SFMTA's two-year budget cycle. The SFMTA amended its originally adopted FY 2011-2012 budget to include fringe benefit and inter-department work order budget increases and adjusted a few revenue items based on projections. With a higher than anticipated contribution from City's general fund, the SFMTA was able to rebalance its FY 2011-2012 budget to its originally adopted amount of \$780.6 million.

The SFMTA Board of Directors approved the Agency's FY 2013 and FY 2014 two-year budget in April 2012. The final adopted budget for FY 2013 is \$828.2 million and for FY 2014, \$851.1 million. Compared with FY 2012, budget in FY 2013 has increased by around 6.1%. Compared with FY 2013, increase in FY 2014 is close to 2.8%.

Revenue items that contribute to the increase are operating grants, transit advertising, parking and traffic fees and fines, transit fares, and general fund contribution. The projected revenue increase in transit fares and parking fees and fines are mainly due to increases in transit fare and parking citation rates that were approved by the SFMTA Board of Directors for FY 2013 and FY 2014 budget period.

On the expenditure side, new labor agreements have resulted in increase in salary and fringe benefit cost by about 9.2% in FY 2013. Fringe benefit cost is expected to increase by 10.6% in FY 2014 from FY 2013's budget. Other major factors that contribute to budget increase are department overhead, debt service, and work order budget. As recommended, the Agency included a provision for rainy day reserve in the two-year budget.

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, 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

Statements of Net Assets

June 30, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Assets:		
Current assets:		
Deposits and investments with City Treasury	\$ 425,196	286,640
Deposits and investments held outside City Treasury	3,628	3,590
Cash on hand	405	355
Receivables:		
Grants	76,944	75,361
Due from the San Francisco County Transportation Authority	14,620	11,332
Due from other City departments	120	—
Due from Component Unit	1	—
Charges for services (net of allowance for doubtful accounts of \$48 and \$289 in 2012 and 2011, respectively)	5,025	5,276
Interest and other	<u>3,722</u>	<u>2,116</u>
Total receivables	100,432	94,085
Inventories	54,781	55,179
Current deferred charges	<u>355</u>	<u>2,710</u>
Total current assets	<u>584,797</u>	<u>442,559</u>
Restricted assets:		
Deposits and investments with City Treasury	3,740	6,372
Deposits and investments held outside City Treasury	10,630	10,895
Other receivables	<u>3,488</u>	<u>3,797</u>
Total restricted assets	17,858	21,064
Noncurrent assets:		
Deferred charges and other assets	1,608	1,817
Capital assets	<u>2,115,706</u>	<u>2,029,078</u>
Total noncurrent assets	<u>2,135,172</u>	<u>2,051,959</u>
Total assets	\$ <u>2,719,969</u>	<u>2,494,518</u>

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Net Assets

June 30, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Liabilities:		
Current liabilities:		
Due to other funds	\$ 3,731	1,768
Accounts payable and accrued expenses	77,348	66,326
Accrued payroll	33,022	27,327
Accrued vacation and sick leave	16,328	15,585
Accrued workers' compensation	14,806	14,998
Accrued claims	13,411	20,393
Grants received in advance	130,388	61,576
Deferred revenue and other deferred credits	8,242	8,626
Payable from restricted assets	1,241	1,166
Accrued interest payable	98	110
Bonds, loans, capital leases and other payables	3,575	3,405
Total current liabilities	<u>302,190</u>	<u>221,280</u>
Noncurrent liabilities:		
Accrued vacation and sick leave, net of current portion	11,951	11,496
Accrued workers' compensation, net of current portion	73,033	78,023
Accrued claims, net of current portion	20,320	27,609
Other postemployment benefits obligation	153,369	126,459
Deferred revenue and other deferred credits, net of current portion	23,850	25,334
Bonds, loans, capital leases and other payables, net of current portion	39,776	43,397
Total noncurrent liabilities	<u>322,299</u>	<u>312,318</u>
Total liabilities	<u>\$ 624,489</u>	<u>533,598</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 2,072,355	1,982,276
Restricted	16,617	19,898
Unrestricted	6,508	(41,254)
Total net assets	<u><u>\$ 2,095,480</u></u>	<u><u>1,960,920</u></u>

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Revenues, Expenses,
and Changes in Net Assets

June 30, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Passenger fares	\$ 200,972	190,181
Rents and concessions	6,617	6,060
Parking and transportation	109,306	103,475
Charges for services	2,233	2,688
Advertising	15,083	14,941
Other	16,253	16,795
Total operating revenues	<u>350,464</u>	<u>334,140</u>
Operating expenses:		
Personnel services	599,944	566,951
Contractual services	66,180	63,727
Materials and supplies	86,443	73,254
Depreciation and amortization	118,518	116,587
Services from other City departments	54,294	51,306
General and administrative	30,369	36,523
Other operating expenses	947	(5,677)
Total operating expenses	<u>956,695</u>	<u>902,671</u>
Operating loss	<u>(606,231)</u>	<u>(568,531)</u>
Nonoperating revenues (expenses):		
Operating assistance:		
Federal	21,432	17,436
State and other grants	106,571	111,730
Interest income	5,983	3,080
Interest expense	(2,393)	(2,547)
Licenses, permits and franchises	9,748	9,514
Fines, forfeitures and penalties	87,307	89,620
Other, net	16,668	14,559
Total nonoperating revenues, net	<u>245,316</u>	<u>243,392</u>
Loss before capital contributions and transfers	<u>(360,915)</u>	<u>(325,139)</u>
Capital contributions:		
Federal	129,226	134,310
State and others	87,288	64,671
Total capital contributions	<u>216,514</u>	<u>198,981</u>
Transfers in:		
City and County of San Francisco – General Fund	273,993	254,890
San Francisco County Transportation Authority	15,017	9,217
Total transfers in	<u>289,010</u>	<u>264,107</u>
Transfers out:		
City and County of San Francisco – Other City departments	(4,052)	(5,052)
City and County of San Francisco – Street Improvement Fund	(5,997)	(5,458)
Net transfers	<u>278,961</u>	<u>253,597</u>
Change in net assets	<u>134,560</u>	<u>127,439</u>
Total net assets – beginning of year	<u>1,960,920</u>	<u>1,833,481</u>
Total net assets – ending of year	<u>\$ 2,095,480</u>	<u>1,960,920</u>

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from passengers and service contracts	\$ 389,939	364,569
Cash received from fines, forfeitures, penalties and other	107,260	109,806
Cash paid to employees for services	(571,505)	(538,524)
Cash paid to suppliers for goods and services	(264,512)	(241,924)
Cash paid for judgment and claims	(16,730)	(10,196)
Net cash used in operating activities	<u>(355,548)</u>	<u>(316,269)</u>
Cash flows from noncapital financing activities:		
Operating grants	119,696	134,656
Net transfers	277,143	255,070
Other noncapital increases (decreases)	2,655	(1,545)
Net cash provided by noncapital financing activities	<u>399,494</u>	<u>388,181</u>
Cash flows from capital and related financing activities:		
Capital grants	288,263	158,926
Proceeds from sale of capital assets	2,584	1,655
Acquisition of capital assets	(199,151)	(179,464)
Principle payments on bonds and other payables	(3,405)	(3,260)
Interest paid on long term debt	(2,338)	(2,378)
Other capital increases (decreases)	18	18
Net cash (used in) provided by capital and related financing activities	<u>85,971</u>	<u>(24,503)</u>
Cash flows from investing activities:		
Interest income received	5,830	3,150
Net cash provided by investing activities	<u>5,830</u>	<u>3,150</u>
Net increase in cash and cash equivalents	135,747	50,559
Cash and cash equivalents – beginning of year	307,852	257,293
Cash and cash equivalents – end of year	<u>\$ 443,599</u>	<u>307,852</u>

Capital assets purchased with accounts payable amounted to \$5 million and \$0 million for the years ended June 30, 2012 and 2011, respectively.

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (606,231)	(568,531)
Nonoperating revenue:		
Fines, forfeitures and penalties	87,307	89,620
Licenses, permits and franchises	9,748	9,514
Other, net	10,205	10,672
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	118,518	116,587
Provision for doubtful accounts	(5)	(7)
Changes in operating assets and liabilities:		
Receivables, net	(161)	(4,018)
Inventories	398	(3,508)
Deferred charges	2,355	(277)
Accounts payable and accrued expenses	3,064	4,681
Accrued payroll	5,512	2,187
Accrued vacation and sick leave	1,198	(1,249)
Accrued workers' compensation	(5,182)	1,024
Accrued claims	(14,271)	1,081
Other postemployment benefits obligations	26,910	26,466
Due to other funds	3,731	(535)
Deferred revenues and other deferred credits	1,356	24
Net cash used in operating activities	<u>\$ (355,548)</u>	<u>(316,269)</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Deposits with City Treasury:		
Unrestricted	\$ 425,196	286,640
Restricted	3,740	6,372
Deposits held outside City Treasury:		
Unrestricted	3,628	3,590
Restricted	10,630	10,895
Total deposits and investments	443,194	307,497
Less: Investments outside City Treasury not meeting the definition of cash equivalents	—	—
Cash on hand	405	355
Total cash and cash equivalents, end of year	<u>\$ 443,599</u>	<u>307,852</u>

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2012 and 2011

(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 entire City's surface transportation network that encompasses pedestrians, bicycling, transit (Muni), traffic and parking, regulation of the taxi industry, and five nonprofit parking garage corporations operated by separate nonprofit corporations, whose operations are interrelated. The San Francisco Municipal Railway Improvement Corporation (SFMRIC), which was part of prior year reporting, was dissolved on October 4, 2011 and all remaining funds were transferred to SFMTA. 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 which then has assumed responsibility for taxi regulation to advance reforms as well as upgrade working conditions for drivers. SFMTA has regulatory power over the taxi industry and other motor vehicles for hire in San Francisco.

The various non-profit parking garages corporations operate 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.

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

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands, unless otherwise noted)

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.

(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.

(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.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands, unless otherwise noted)

(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.

(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.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands, unless otherwise noted)

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 maintenance costs of increased peak period transit service associated with new commercial development in the City. 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.

(3) **Net Assets**

Net assets as of June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Restricted assets:		
Deposits and investments with City Treasury	\$ 3,740	6,372
Deposits and investments outside City Treasury (see note below)	10,630	10,895
Receivables	3,488	3,797
Total restricted assets	<u>17,858</u>	<u>21,064</u>
Restricted liabilities of:		
Payable from restricted assets	<u>(1,241)</u>	<u>(1,166)</u>
Total restricted liabilities	<u>(1,241)</u>	<u>(1,166)</u>
Restricted assets, net	\$ <u>16,617</u>	<u>19,898</u>
Net assets:		
Restricted:		
Debt service	\$ 4,822	3,420
Other purposes	11,795	16,478
Total restricted net assets	16,617	19,898
Unrestricted	6,508	(41,254)
Invested in capital assets, net of related debt	2,072,355	1,982,276
Net assets	\$ <u>2,095,480</u>	<u>1,960,920</u>

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands, unless otherwise noted)

(4) Deposits and Investments

Pursuant to the City Charter, 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, 2012 and 2011, the SFMTA's unrestricted deposits and investments with City Treasury were \$425,196 and \$286,640, respectively. This constitutes 8.29% and 6.56% of the City's investment pool as of June 30, 2012 and 2011, respectively.

The restricted deposits and investments outside the City Treasury are mostly related to issuance of bonds with the trustees and funds held by non-profit parking garages. As of June 30, 2012 and 2011, the SFMTA had restricted deposits and investments with the trustees of \$10,630 and \$10,895, respectively. The restricted deposits and investments outside the City Treasury are held by independent trustees.

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
2012	1.9%	11.1%	08.0%	79.0%
2011	1.3%	13.2%	13.4%	72.1%

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands, unless otherwise noted)

(5) Capital Assets

Capital asset balances and their movements as of and for the year ended June 30, 2012 and 2011 are as follows:

	<u>Balance, July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2012</u>
Capital assets not being depreciated:				
Land	\$ 26,501	15,250	(256)	41,495
Construction-in-progress	286,532	188,819	(52,990)	422,361
Total capital assets not being depreciated	313,033	204,069	(53,246)	463,856
Capital assets being depreciated:				
Building structures and improvements	615,763	18,072	(458)	633,377
Equipment	1,205,228	26,444	(19,414)	1,212,258
Infrastructure	1,165,135	10,068	—	1,175,203
Total capital assets being depreciated	2,986,126	54,584	(19,872)	3,020,838
Less accumulated depreciation for:				
Building structures and improvements	214,419	13,772	(458)	227,733
Equipment	651,008	71,301	(19,241)	703,068
Infrastructure	404,654	33,533	—	438,187
Total accumulated depreciation	1,270,081	118,606	(19,699)	1,368,988
Total capital assets being depreciated, net	1,716,045	(64,022)	(173)	1,651,850
Total capital assets, net	\$ 2,029,078	140,047	(53,419)	2,115,706

Certain buses, equipment and land were disposed during 2012. The net gain for sold assets is \$2,584.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands, unless otherwise noted)

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.

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Construction-in-progress consists of the following projects as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Rail replacement	\$ 34,040	16,011
Historic Street Car Renovation	17,304	30
Farebox Rehabilitation	1,492	11,000
Cable Car Propulsion	1,887	14,365
Islais Creek-Woods Annex	33,724	13,037
Trolley Overhead Reconstruction	1,530	12,598
New Central Subway	231,481	141,287
Motor Bus Hybrid Procurement	—	9,054
Wayside Fare Collection	30,213	19,374
Facility Upgrades	10,415	17,827
SFPark Meter	25,126	13,148
Radio Replacement	10,372	9,330
Security Projects	8,596	3,873
Central Control System Upgrades	10,286	—
Others	5,895	5,598
	<u>\$ 422,361</u>	<u>286,532</u>

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were \$77,348 and \$66,326 at June 30, 2012 and 2011, 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.

	<u>2012</u>	<u>2011</u>
Vouchers payable	\$ 43,337	40,012
Accruals	27,117	23,505
Contracts retainage	6,894	2,809
Total accounts payable and accrued expenses	<u>\$ 77,348</u>	<u>66,326</u>

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

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%.

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

	<u>Final maturity date</u>	<u>Remaining interest rate</u>	<u>Balance June 30, 2012</u>	<u>Balance June 30, 2011</u>
Parking and traffic:				
Revenue bonds	2020	4.70% – 5.00%	\$ 13,080	14,385
Lease Revenue bonds	2022	5.00% – 5.50%	5,097	5,479
Downtown parking – parking revenue refunding bonds	2018	4.45% – 5.375%	6,199	7,076
Ellis–O’Farrell – parking revenue refunding bonds	2017	3.50% – 4.70%	2,538	2,983
Uptown parking – revenue bonds	2031	4.50% – 6.00%	<u>16,437</u>	<u>16,879</u>
Total long-term obligations			\$ <u>43,351</u>	<u>46,802</u>

The changes in long-term obligations for the SFMTA for years ended June 30, 2012 and 2011 are as follows:

	<u>Balance July 1, 2011</u>	<u>Net increases</u>	<u>Net decreases</u>	<u>Balance June 30, 2012</u>	<u>Amount due within one year</u>
Bonds payable:					
Revenue bonds	\$ 40,640	—	(3,025)	37,615	3,175
Lease revenue bonds	5,455	—	(380)	5,075	400
Add/less deferred amounts:					
For issuance premiums	<u>707</u>	<u>—</u>	<u>(46)</u>	<u>661</u>	<u>—</u>
Total bonds payable	46,802	—	(3,451)	43,351	3,575
Accrued vacation and sick leave	27,081	19,412	(18,214)	28,279	16,328
Accrued workers’ compensation	93,021	14,530	(19,712)	87,839	14,806
Accrued claims	48,002	2,458	(16,729)	33,731	13,411
Deferred revenue and other deferred credits	<u>33,960</u>	<u>588</u>	<u>(2,456)</u>	<u>32,092</u>	<u>8,242</u>
Total long-term obligations	\$ <u>248,866</u>	<u>36,988</u>	<u>(60,562)</u>	<u>225,292</u>	<u>56,362</u>

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	Balance July 1, 2010	Net increases	Net decreases	Balance June 30, 2011	Amount due within one year
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

The bond debt service requirements are as follows:

Year ending June 30	Principal	Revenue bonds interest	Total
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	4,328	1,512	5,840
2018 – 2022	13,453	4,680	18,133
2023 – 2027	4,360	2,433	6,793
2028 – 2032	5,830	915	6,745
	\$ 43,351	17,545	60,896

Note: Principal amount includes bond premium of \$661.

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.

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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.

(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 2012 and 2011 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 2012 and 2011, the actuarially determined contribution rate as a percentage of covered payroll was 18.09% and 13.56%, respectively. The SFMTA's required contribution was approximately \$56.4 million in 2012 and \$41.7 million in 2011. The SFMTA contributed 100% of their required contribution.

The SFMTA's contributions to the Retirement System on behalf of its employees amounted to \$9,212 and \$10,451 for the years ended June 30, 2012 and 2011, which were equal to the required employee contributions for the year.

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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.

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 \$83,067 and \$72,729 in fiscal years 2012 and 2011, 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 \$25,352 and \$24,898 for fiscal year 2012 and 2011, 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 2012 and 2011, 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, 2012 and 2011 based upon its percentage of City-wide payroll costs is presented below.

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The following table shows the components of the City's annual OPEB allocations for SFMTA for the fiscal years ended June 30, 2012 and 2011, the amounts contributed to the plan and changes in the net OPEB obligations:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 51,232	50,338
Interest on net OPEB obligation	6,017	4,747
Adjustment to ARC	<u>(4,987)</u>	<u>(3,721)</u>
Annual OPEB cost	52,262	51,364
Contribution made	<u>(25,352)</u>	<u>(24,898)</u>
Increase in net OPEB obligation	26,910	26,466
Net OPEB obligation, beginning of fiscal year	<u>126,459</u>	<u>99,993</u>
Net OPEB obligation, end of fiscal year	<u>\$ 153,369</u>	<u>126,459</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 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 \$4.9 million and \$6.5 million for operating needs in fiscal years 2012 and 2011, 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

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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.

Risks	Coverage
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-determined anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation and other economic social factors. Effective FY2013, the SFMTA Board decided to no longer purchase an excess liability insurance policy.

(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.

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(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 set by the City Charter and 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. 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 baseline transfer of \$212.6 million and \$194.6 million in fiscal year 2012 and 2011, respectively, as required by the City Charter.

(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, 2012 and 2011, the SFMTA had approved capital grants with unused balances amounting to \$630.2 million and \$574.0 million, respectively. Capital grants receivable as of June 30, 2012 and 2011 totaled \$70.1 million and \$73.8 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, 2012 and 2011, the SFMTA had various operating grants receivable of \$21.4 million and \$12.9 million, respectively. In fiscal years 2012 and 2011, the SFMTA's operating assistance also includes BART Americans with Disability Act (ADA) revenues of \$1.2 million and \$1.1 million, respectively, and other federal, state, and local grants of \$25.2 million and \$19.4 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 years 2012 and 2011, the SFCTA approved \$85.8 million and \$43 million, respectively, in new capital grants and the SFMTA received payments totaling \$61.5 million and \$32.4 million, respectively. As of June 30, 2012 and 2011, the SFMTA had \$11.4 million and \$8.8 million, respectively, in capital grants due from the SFCTA. Similarly, the SFMTA receives operating grants from SFCTA. During the fiscal years 2012 and 2011, SFCTA approved \$13.7 million and \$14.7 million, respectively, in new operating grants and SFMTA received payments totaling \$10.0 million and \$11.1, respectively.

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The SFMTA had \$3.2 million and \$2.5 million in operating grants due from the SFCTA as of June 30, 2012 and 2011, 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 \$88.6 million in fiscal year 2012 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 2012, \$18.1 million drawdowns were made from the funds for various eligible projects costs. In fiscal year 2011, the drawdowns totaled \$25 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.

(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 2037. These agreements are accounted for as operating leases. Rent expense was \$12.3 million and \$12.4 million for the year ended June 30, 2012 and 2011, respectively.

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

Years ending June 30:		
2013	\$	9,851
2014		9,898
2015		10,117
2016		8,638
2017		8,270
2018 – 2022		44,365
2023 – 2027		50,968
2028 – 2032		59,353
2033 – 2037		71,939
Total	\$	<u>273,399</u>

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(c) Other Commitments

As of June 30, 2012, the SFMTA has outstanding commitments of approximately \$188.9 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 \$30.6 million with third parties for noncapital expenditures. 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 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 respectively, Breda light rail vehicles (the Tranche 1 and Tranche 2 Equipment). 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 date. The terms of the SILO documents 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. On March 20, 2012, Moody's placed the rating of AGM on credit review for possible downgrade. As of June 30, 2012, Moody's has not announced the result of its credit review. Failure of Muni to replace AGM following a downgrade by either Moody's or S&P to below its current ratings 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

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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, 2012 after giving effect to the market value of the securities in the escrow accounts would approximate \$62.26 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, 2012 or 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 2012.

As of June 30, 2012, the outstanding payments to be made on the sublease through the end of the sublease term are \$26.4 million and \$1.0 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

(a) Bond Issuance

In July 2012, SFMTA issued a total of \$63.8 million in Revenue Bonds, Series 2012A for \$38.0 million, and Series 2012B for \$25.8 million. The Series 2012A Bonds were issued to: (a) refund prior bonds issued by the Parking Authority, the City of San Francisco Ellis-O'Farrell Parking Corporation, the City of San Francisco Downtown Parking Corporation and the City of San Francisco Uptown Parking Corporation; (b) make a deposit to the 2012 Reserve Account of the bond Reserve Fund; and (c) pay a portion of the cost of issuance of the Series 2012 Bonds. The Series 2012B Bonds will be used to: (a) finance a portion of the costs of various capital projects for the SFMTA; (b) make a deposit to the 2012 Reserve Account of the Bond Reserve Fund; and (c) pay a portion of the costs of issuance of the Series 2012 Bonds. The refunded bonds were redeemed on July 27, 2012. This refunding resulted in net present value savings of \$6.7 million, representing 15.80% saving of refunded bonds,

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with the average coupon of refunded bonds 5.64%. The true interest cost (TIC) of the 2012 Revenue Bonds was 3.7%.

(b) *Nonprofit garages*

On June 18, 2012, the SFMTA executed a Lease Amendment with the Ellis O'Farrell Parking Corporation, the Downtown Parking Corporation and the Uptown Parking Corporation in order to authorize the SFMTA to repay existing debt held by each corporation. The Lease Amendment also provided the corporations the option to either enter into a new lease with the SFMTA or dissolve the Corporation. The Downtown Parking Corporation and the Ellis O'Farrell Parking Corporation voted to disband operations. The dissolution of these corporations is currently being negotiated. The two corporation boards are expected to approve terms of the dissolution in the later part of 2012. Subsequently, the SFMTA Board is expected to approve dissolution terms in the later part of 2012. The Uptown Parking Corporation voted to enter into a new lease agreement with the SFMTA for continued oversight of the Union Square Garage, which is owned by the Recreation and Park Department but administered by the SFMTA, and the SFMTA owned Sutter Stockton Garage. The new lease agreement for the Sutter Stockton Garage is expected to be presented to the SFMTA Board of Directors for approval and the new lease for the Union Square Garage is expected to be presented to the Recreation and Park Commission both in November 2012. The SFMTA will take this opportunity to also enter into a new lease with the Japan Center Garage Parking Corporation for oversight of the Japan Center Garages with similar if not identical provisions as the Uptown Parking Corporation lease with the same required approval and timeline. SFMTA anticipates submitting these new leases to the Board of Supervisors for their final approval in December 2012.

(c) *Central Subway Project Funding Agreements*

On October 12, 2012, the U.S. Government awarded a Full Funding Grant Agreement (FFGA) to the SFMTA in the amount of \$942 million of Federal New Starts Funds for the Third Street Light Rail Phase II Central Subway Project (Central Subway). The project includes the design and construction of a 1.7 mile light rail transit extension of the existing Third Street Light Rail Phase I Line in San Francisco. The Project will begin at the existing Caltrain station at Fourth and King Streets and continue to a new terminus in Chinatown at Stockton and Jackson Streets. The Project includes four stations: one surface station on Fourth Street between Brannan and Bryant Streets and three underground stations at Moscone, Union Square/Market Street, and Chinatown.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands, unless otherwise noted)

The FFGA assures the grantee of predictable federal financial support for the project. To date, the SFMTA has received \$92 million of FFGA funds with an additional \$85 million anticipated for receipt in the fall of 2012. The balance of \$765 million is anticipated to come to SFMTA in an annual stream of \$150 million increments through FY 2017 with the final payment of \$15 million due in FY 2018. Although the annual payout is subject to congressional appropriations, Congress has consistently honored the payout schedule and amounts established by the FFGA.

Proposition 1A is the Safe, Reliable High-Speed Passenger Train Bond Act approved by voters on November 4, 2008. The measure approved the issuance of \$9.95 billion in bonds to establish a clean, efficient high-speed train service linking Southern California, the Sacramento San Joaquin Valley, and the San Francisco Bay Area. Of this, \$760 million has been made available, by formula, to the State's various commuter rail and urban rail systems. The SFMTA's share of these funds is \$61.3 million. On September 27, 2012, all of these funds were allocated by the State Transportation Commission to the SFMTA for construction of the Central Subway project.

SUPPLEMENTAL SCHEDULES

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Supplemental Schedule – Schedule of Net Assets

June 30, 2012

(In thousands)

	<u>Muni</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>SFMTA Eliminations</u>	<u>Total</u>
Assets:					
Current assets:					
Deposits and investments with City Treasury	\$ 352,290	72,906	—	—	425,196
Deposits and investments held outside City Treasury	215	—	3,413	—	3,628
Cash on hand	405	—	—	—	405
Receivables:					
Grants	61,117	15,827	—	—	76,944
Due from the San Francisco County Transportation Authority	11,440	3,180	—	—	14,620
Due from Other City Department	—	120	—	—	120
Due from Component Unit	1	—	—	—	1
Charges for services, net	3,185	1,708	132	—	5,025
Other, net	2,972	679	71	—	3,722
Total receivables	78,715	21,514	203	—	100,432
Inventories	54,781	—	—	—	54,781
Current deferred charges	—	—	355	—	355
Total current assets	486,406	94,420	3,971	—	584,797
Restricted assets:					
Deposits and investments with City Treasury:	3,740	—	—	—	3,740
Deposits and investments held outside City Treasury	—	681	9,949	—	10,630
Other receivables	3,488	—	—	—	3,488
Total restricted assets	7,228	681	9,949	—	17,858
Noncurrent other, net	—	181	1,427	—	1,608
Capital assets	2,003,542	53,097	59,067	—	2,115,706
Total noncurrent assets	2,010,770	53,959	70,443	—	2,135,172
Total assets	\$ 2,497,176	148,379	74,414	—	2,719,969

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Supplemental Schedule – Schedule of Net Assets

June 30, 2012

(In thousands)

	<u>Muni</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>SFMTA Eliminations</u>	<u>Total</u>
Liabilities:					
Current liabilities:					
Due to other funds	\$ 1,947	1,784	—	—	3,731
Accounts payable and accrued expenses	69,209	5,438	2,701	—	77,348
Accrued payroll	28,791	3,826	405	—	33,022
Accrued vacation and sick leave	13,480	2,848	—	—	16,328
Accrued workers' compensation	12,445	2,361	—	—	14,806
Accrued claims	11,416	1,995	—	—	13,411
Deferred tax, grant and subvention revenues	129,825	563	—	—	130,388
Deferred revenue and other deferred credits	4,961	2,972	309	—	8,242
Payable from restricted assets	1,241	—	—	—	1,241
Accrued interest receivable	—	64	34	—	98
Bonds, loans, and capital leases	—	1,770	1,805	—	3,575
Total current liabilities	<u>273,315</u>	<u>23,621</u>	<u>5,254</u>	<u>—</u>	<u>302,190</u>
Noncurrent liabilities:					
Accrued vacation and sick leave	9,797	2,154	—	—	11,951
Accrued workers' compensation	58,588	14,445	—	—	73,033
Accrued claims	15,435	4,885	—	—	20,320
Other postemployment benefits obligation	133,764	19,605	—	—	153,369
Deferred revenue and other deferred credits	23,819	—	31	—	23,850
Bonds, loans, and capital leases	—	16,407	23,369	—	39,776
Total noncurrent liabilities	<u>241,403</u>	<u>57,496</u>	<u>23,400</u>	<u>—</u>	<u>322,299</u>
Total liabilities	<u>\$ 514,718</u>	<u>81,117</u>	<u>28,654</u>	<u>—</u>	<u>624,489</u>
Net assets:					
Invested in capital assets, net of related debt	\$ 2,003,542	34,920	33,893	—	2,072,355
Restricted	5,987	681	9,949	—	16,617
Unrestricted	<u>(27,071)</u>	<u>31,661</u>	<u>1,918</u>	<u>—</u>	<u>6,508</u>
Total net assets	<u>\$ 1,982,458</u>	<u>67,262</u>	<u>45,760</u>	<u>—</u>	<u>2,095,480</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Supplemental Schedule – Schedule of Revenues, Expenses,
and Changes in Net Assets

Year ended June 30, 2012

(In thousands)

	<u>Muni</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>SFMTA Eliminations</u>	<u>Total</u>
Operating revenues:					
Passenger fares	\$ 200,972	—	—	—	200,972
Advertising	15,083	—	—	—	15,083
Parking and transportation	—	68,309	40,997	—	109,306
Charges for services	1,307	926	—	—	2,233
Rents and concessions	1,415	1,975	3,227	—	6,617
Other	1,390	14,803	60	—	16,253
Total operating revenues	220,167	86,013	44,284	—	350,464
Operating expenses:					
Personnel services	524,427	66,347	9,170	—	599,944
Contractual services	35,376	26,015	4,789	—	66,180
Materials and supplies	81,177	3,724	1,542	—	86,443
Depreciation and amortization	114,721	1,421	2,376	—	118,518
General and administrative	21,345	7,378	1,646	—	30,369
Services from other City departments	38,427	15,867	—	—	54,294
Other operating expenses	(5,448)	6,178	217	—	947
Total operating expenses	810,025	126,930	19,740	—	956,695
Operating loss	(589,858)	(40,917)	24,544	—	(606,231)
Nonoperating revenues (expenses and losses):					
Operating assistance:					
Federal	17,636	3,796	—	—	21,432
State and other grants	99,776	6,795	—	—	106,571
Interest income and investment income	5,139	837	7	—	5,983
Interest expense	—	(992)	(1,401)	—	(2,393)
Licenses, permits and franchises	—	9,748	—	—	9,748
Fines, forfeitures and penalties	—	87,307	—	—	87,307
Loss on disposal/retirement of capital assets	2,581	3	—	—	2,584
Other, net	2,708	11,454	(78)	—	14,084
Total nonoperating revenues, net	127,840	118,948	(1,472)	—	245,316
Loss before capital contribution and transfers	(462,018)	78,031	23,072	—	(360,915)
Capital contributions:					
Federal	117,248	11,978	—	—	129,226
State and others	87,288	—	—	—	87,288
Total capital contributions	204,536	11,978	—	—	216,514
Transfers in:					
City and County of San Francisco – General Fund	216,003	57,990	—	—	273,993
San Francisco County Transportation Authority	8,467	6,550	—	—	15,017
SFMTA operating transfers in	148,737	33,074	—	(181,811)	—
Total transfers in	373,207	97,614	—	(181,811)	289,010
Transfers out:					
City and County of San Francisco – Street Improvement	—	(5,997)	—	—	(5,997)
SFMTA operating transfers out	(14,940)	(148,737)	(18,134)	181,811	—
Other City departments	—	—	(4,052)	—	(4,052)
Net transfers	358,267	(57,120)	(22,186)	—	278,961
Change in net assets	100,785	32,889	886	—	134,560
Total net assets – beginning	1,881,673	34,373	44,874	—	1,960,920
Total net assets – ending	\$ 1,982,458	67,262	45,760	—	2,095,480

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY

Supplemental Schedule of Grants – Federal

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Capital grants:							
Sec 3 – Construct Islais Creek Facility	\$ 13,294	—	(11,003)	—	2,291	—	2,291
Sec 4 – Islais Creek ITS & AVL	9,220	—	(1,018)	—	8,202	(4,276)	3,926
Sec 3 – Third street Phase II Central Subway	13,922	20,000	(30,680)	—	3,242	(2,732)	510
Sec 3 – Fixed Guideway	173,166	57,383	(31,953)	—	198,596	(187,726)	10,870
Sec 4 – Glen Park Intermodal Facility	2,205	931	(293)	—	2,843	(2,574)	269
Sec 4 – Bus and Bus Facilities	980	—	(517)	—	463	(463)	—
Section 9 fiscal year 1999/00	2,062	—	(1,725)	—	337	(337)	—
Section 9 fiscal year 2000/01	1,458	—	(1,458)	—	—	—	—
Section 9 fiscal year 2001/02	3,833	—	(1,159)	—	2,674	(2,672)	2
Section 9 fiscal year 2003/04	1,798	—	(1,087)	—	711	(711)	—
Section 9 fiscal year 2004/05	3,157	—	(1,471)	—	1,686	(1,686)	—
Section 9 fiscal year 2005/06	3,502	—	(2,008)	—	1,494	(1,494)	—
Section 9 fiscal year 2006/07	11,744	—	(235)	—	11,509	(11,191)	318
Section 9 fiscal year 2007/08	26,429	—	(9,743)	—	16,686	(13,510)	3,176
Section 9 fiscal year 2008/09	23,848	—	(3,661)	—	20,187	(18,520)	1,667
Section 9 fiscal year 2009/10	12,594	—	(11)	—	12,583	(12,309)	274
Section 9 fiscal year 2010/11	—	6,745	(103)	—	6,642	(5,378)	1,264
Section 3 - Central Control Facility	2	—	(2)	—	—	—	—
Section 3 - Third Street Metro East	5,334	—	(3,777)	—	1,557	(1,111)	446
Section 3 - PM Traps Fleet	3,088	—	(3,088)	—	—	—	—
Section 3 Van Ness Avenue BRT	391	—	(391)	—	—	—	—
Section 5317 Paratransit Van Mobile Data	—	701	—	—	701	(646)	55
Section 5307 Market Haight Project	—	2,800	—	—	2,800	(2,800)	—
Section 95 Central Subway 3rd LRP Phase II	11,655	17,500	(9,845)	—	19,310	(2,799)	16,511
Total capital grants	<u>\$ 323,682</u>	<u>106,060</u>	<u>(115,228)</u>	<u>—</u>	<u>314,514</u>	<u>(272,935)</u>	<u>41,579</u>
ARRA Grants							
Section 96 Infrastructure & Maintenance_PM operating in nature	\$ 24,398	—	(15,149)	(372)	8,877	(5,670)	3,207
Section 96 Infrastructure & Maintenance- Capital	—	—	(222)	372	150	—	150
Total pass-through grants	<u>\$ 24,398</u>	<u>—</u>	<u>(15,371)</u>	<u>—</u>	<u>9,027</u>	<u>(5,670)</u>	<u>3,357</u>
Operating grants:							
Paratransit	\$ —	4,117	(4,117)	—	—	—	—
JARC Lifeline Routes 108 & 109	433	495	(433)	—	495	—	495
Lifeline Shopping Shuttle	252	—	(27)	—	225	(199)	26
Total operating grants	<u>\$ 685</u>	<u>4,612</u>	<u>(4,577)</u>	<u>—</u>	<u>720</u>	<u>(199)</u>	<u>521</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Capital grants:							
Prop IB – Third Street Light Rail	\$ 2,661	—	(128)	—	2,533	(2,533)	—
Prop IB – Auto Passenger Counter	1,301	—	(1,299)	—	2	(2)	—
Prop IB – Overhead Rehab/Relocation	733	—	—	—	733	(733)	—
Prop IB – Farebox Rehabilitation	1,960	—	(1,682)	—	278	(278)	—
Prop IB – Geneva Yard	2,011	—	(1,778)	—	233	(233)	—
Prop IB – Metro East LRV Facility	1,665	—	(16)	—	1,649	(1,649)	—
Prop IB – Operator Restrooms	2,694	—	(160)	—	2,534	(2,534)	—
Prop IB – Homeland Security	6,490	—	(1,661)	—	4,829	(4,829)	—
Prop IB – Central Subway	10,904	—	(2,237)	—	8,667	(8,667)	—
Prop IB – Central Control and Communication	400	—	—	—	400	(400)	—
Prop IB – Central Control and Communication	1,126	—	—	—	1,126	(1,126)	—
Prop IB – LRV Rehab Program	3,638	—	(1,705)	—	1,933	(1,933)	—
Prop IB – High Speed Connectivity	815	—	(18)	—	797	(797)	—
Prop IB – Transit Security Infrastructure	7,000	—	(1,213)	—	5,787	(5,787)	—
Prop IB – LRV Rehabilitation	5,262	—	—	—	5,262	(5,262)	—
Prop IB – LRV Restoration Program	3,831	770	(3,820)	—	781	(781)	—
Prop IB – Central Subway FY0910	352	84,661	(3,531)	—	81,482	(81,482)	—
Prop IB – Central Subway FY0809	719	—	(719)	—	—	—	—
Prop IB – Transit Security	7,070	—	—	—	7,070	(7,070)	—
Prop IB – Balboa Park Station Connections	—	864	—	—	864	(864)	—
Prop IB – Motor Coach Component Rehab	—	700	—	—	700	(700)	—
Total capital grants	\$ 60,632	86,995	(19,967)	—	127,660	(127,660)	—

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Capital grants:							
Bridge toll:							
Cable Car Renovation	\$ 263	—	(16)	(247)	—	—	—
Motor Coach Replacement	486	—	—	(486)	—	—	—
E-line Embarcadero Streetcar	1,060	—	(29)	(1,031)	—	—	—
Match to Capital Grants	10,440	4,973	(3,481)	—	11,932	(9,805)	2,127
Total capital grants	<u>\$ 12,249</u>	<u>4,973</u>	<u>(3,526)</u>	<u>(1,764)</u>	<u>11,932</u>	<u>(9,805)</u>	<u>2,127</u>
State Transit Assistance							
Third Street Light Rail	\$ 764	—	—	—	764	(764)	—
Clipper Limited Use Card	—	125	(106)	—	19	(19)	—
Third Street Light Rail	<u>\$ 764</u>	<u>125</u>	<u>(106)</u>	<u>—</u>	<u>783</u>	<u>(783)</u>	<u>—</u>
Operating grants:							
AB1107 Sales Tax	\$ 3,138	32,500	(32,367)	—	3,271	—	3,271
State Transit Assistance	287	31,959	(24,256)	—	7,990	—	7,990
Transportation Development Act	—	31,324	(31,324)	—	—	—	—
Owl Operations	—	187	(187)	—	—	—	—
Third Street Start Up Operations	—	2,500	(2,500)	—	—	—	—
Translink Project	14	—	—	—	14	(14)	—
Lifeline – Shopping Shuttle	1	49	(26)	—	24	(24)	—
Total operating grants	<u>\$ 3,440</u>	<u>98,519</u>	<u>(90,660)</u>	<u>—</u>	<u>11,299</u>	<u>(38)</u>	<u>11,261</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Capital grants:							
3rd Light Rail-Preliminary Design	\$ 5,252	—	(1,019)	—	4,233	(4,221)	12
Accessible Vans	5	—	—	—	5	—	5
Bus & Trolley System Overhaul Program	4,690	—	(3,272)	—	1,418	(223)	1,195
Cable Car Infrastructure	3,348	—	(257)	—	3,091	(3,028)	63
Central Subway	32,247	57,213	(44,116)	2,260	47,604	(41,839)	5,765
Diesel Bus Purchase	754	—	(649)	—	105	(105)	—
Escalator Replacement Study	1,501	—	(114)	(78)	1,309	(1,138)	171
Facilities Rehabilitation and Improvement	2,945	—	(298)	(2,280)	367	(367)	—
Financial Capacity Study	240	—	—	—	240	(240)	—
Geneva Building Demolition	85	—	(13)	(37)	35	(35)	—
Hybrid Electric Buses	259	—	(33)	—	226	(124)	102
Islais Creek Wood	9,181	—	(2,133)	95	7,143	(4,409)	2,734
Transit Preferential Street CPT460	23	—	(29)	6	—	—	—
Muni Rail Replacement CPT579	6,152	7,028	(2,789)	(1,000)	9,391	(9,356)	35
Overhead Rehab Program	4,238	1,309	(1,375)	—	4,172	(3,995)	177
PCC Overhaul	2,881	45	(1,546)	703	2,083	(1,971)	112
Procurement 56 - 50 Hybrids	3,034	—	(1,657)	—	1,377	(1,377)	—
Rail Replacement/Maintenance Equipment	2,322	—	(43)	(364)	1,915	(1,897)	18
Re-power Standard Motor Coaches CPT598	245	—	(129)	—	116	(116)	—
Trolley Coach Rebuild	662	—	(154)	(4)	504	(485)	19
Woods Division Renovation	23	—	—	(23)	—	—	—
Wood/Potrero Roof Replacement	2	—	—	—	2	(2)	—
Auto Vehicle Location & ETI Bus Lifts	62	—	—	(62)	—	—	—
Woods Lifts-Heavy Maintenance Shop CPT629	662	1,796	—	—	2,458	(2,458)	—
Central Control & Comm CPT630	25,609	15,263	(897)	865	40,840	(40,483)	357
Duboce Ave. Pedestrian Improv CPT634	173	—	(37)	—	136	(54)	82
Van Ness BRT Env Review CPT620	43	—	(38)	—	5	(5)	—
Drivecam Project CPT623	463	—	(98)	(365)	—	—	—
LRV Collision Repairs CPT626	28	—	—	—	28	(1)	27
Radio Communications System	69,729	—	(189)	(10,255)	59,285	(59,285)	—
Van Ness Bus Rapid Transit	321	1,800	(77)	344	2,388	(2,268)	120
Wayside Fare Collection	3,122	—	(348)	—	2,774	(2,687)	87
Paratransit Vans Procurement	—	486	(16)	—	470	(145)	325
Balboa park Intermodal Improvements	—	345	(6)	—	339	(310)	29
Balboa Park Circulation Study	—	65	—	—	65	(60)	5
Enterprise Asset Management System	—	200	(154)	—	46	(46)	—
Balboa Park Station Eastside Connection	—	271	—	—	271	(271)	—
Total capital grants	\$ 180,301	85,821	(61,486)	(10,195)	194,441	(183,001)	11,440

SAN FRANCISCO MUNICIPAL RAILWAY

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Operating grants:							
Capital grant staffing	\$ 8	—	—	—	8	(8)	—
Paratransit contract	3,060	4,117	(4,117)	(3,060)	—	—	—
Trolley bus lifts operations and maintenance	75	—	—	—	75	(75)	—
Total operating grants	<u>\$ 3,143</u>	<u>4,117</u>	<u>(4,117)</u>	<u>(3,060)</u>	<u>83</u>	<u>(83)</u>	<u>—</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY

Supplemental Schedule of Grants – Others

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Capital grants:							
Bay Area Air Quality Management District							
Bike Rack Retrofit	\$ 2	—	—	(2)	—	—	—
Homeland Security:							
CA Emergency Mgmt Agency- Transit Security	4,100	3,901	(362)	—	7,639	(6,328)	1,311
TS K 9 Project	815	—	(161)	—	654	(530)	124
CA Emergency Mgmt Agency- Rail CPT618 & 619	646	—	(569)	(77)	—	—	—
CA Emergency Mgmt Agency- CPT624 & 625	5,813	—	(5,408)	—	405	—	405
CPT 630	—	—	—	—	—	—	—
US Dept of Homeland Security	7,374	—	(2,273)	—	5,101	(4,881)	220
Total capital grants	<u>\$ 18,750</u>	<u>3,901</u>	<u>(8,773)</u>	<u>(79)</u>	<u>13,799</u>	<u>(11,739)</u>	<u>2,060</u>
Operating in nature grants:							
State Video Surveillance Project	\$ 23	—	—	—	23	(23)	—
FY11 TSGP- SFPD	—	927	—	—	927	(715)	212
Total operating grants	<u>\$ 23</u>	<u>927</u>	<u>—</u>	<u>—</u>	<u>950</u>	<u>(738)</u>	<u>212</u>

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – Federal

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Capital Grants:							
SF Park Project	\$ 34,679	—	(13,869)	—	20,810	(11,180)	9,630
Operating in nature:							
Tea Shared Lane Marking Project	167	—	—	—	167	(167)	—
Tea Ped Safety Education RPSTPLE-632(007)	20	—	—	—	20	(15)	5
Inner Sunset Traffic Calming & Transit Enhancement	69	—	—	—	69	(68)	1
Inner Sunset Traffic Calming & Transit Enhancement	73	—	—	—	73	(72)	1
Tenderloin Pedestrian Improvements	313	—	—	—	313	(278)	35
Golden Gate Park Ped Improvements	92	—	(29)	—	63	(3)	60
Var Bike Network Improvements	55	—	(5)	—	50	(14)	36
Eastern Neighborhoods	723	—	(295)	—	428	(229)	199
Chinatown Safe Routes to Schools	126	—	(4)	—	122	(21)	101
Van Ness Corridor Improvement	4,522	—	(742)	48	3,828	(3,774)	54
Fulton Curb Ramps	9	—	—	—	9	(6)	3
HSIP Emergency Vehicle Signal Project	438	—	—	—	438	(384)	54
Bayshore & Paul Signal Upgrade Design	35	—	(1)	—	34	(6)	28
Parking Guidance Project	3,596	—	(1)	—	3,595	(1,507)	2,088
Jefferson Safe Routes to School-Planning	118	—	(4)	—	114	(56)	58
Sunset Blvd New Traffic Signal Design	144	—	(15)	—	129	(82)	47
Alamo School SRTS Project	132	—	(3)	—	129	(103)	26
SFGO Van Ness Corridor Management-TSP/BRT	6,000	—	—	—	6,000	(6,000)	—
TEP Intern Program	17	—	(10)	—	7	(1)	6
Sunset Blvd Ped Safety Education Program	—	147	—	—	147	(17)	130
SF Bicycle Parking Program	—	235	—	—	235	(133)	102
Pedestrian Safety Program	—	70	—	—	70	(10)	60
Masonic Avenue Signal Upgrade	—	161	—	—	161	(161)	—
Total - 5N CPF FED	<u>\$ 51,328</u>	<u>613</u>	<u>(14,978)</u>	<u>48</u>	<u>37,011</u>	<u>(24,287)</u>	<u>12,724</u>
ARRA:							
Inner Sunset Traffic Calming-Constructon Phase	\$ 128	—	—	—	128	(79)	49
Various Locations Ped Signal Upgrade	6	—	(6)	—	—	—	—
Total - 5N CPF ARA	<u>\$ 134</u>	<u>—</u>	<u>(6)</u>	<u>—</u>	<u>128</u>	<u>(79)</u>	<u>49</u>

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Operating in nature grants:							
Randolph/Farralones/Orizaba Transit Access Ped Safety	\$ 59	395	(12)	—	442	(442)	—
Tea Shared Lane Marking Project	21	—	—	—	21	(21)	—
SF Community & Monroe Elec School- Safety Route	158	—	—	—	158	(158)	—
Buena Vista Safe Routes to School	313	—	(121)	—	192	(192)	—
Traffic Calming & Transit Enhancement	9	—	—	—	9	(6)	3
Marshall Safe Routes to School	116	—	(116)	—	—	—	—
Addison & Dighy Traffic Circle – Design	7	—	—	—	7	(4)	3
Addison & Dighy Traffic Circle	56	—	—	—	56	(56)	—
Van Ness Corridor Improvement	4,709	—	—	—	4,709	(3,875)	834
Clarendon Safe Route to School	98	—	—	—	98	(16)	82
Prop IB-Persia Triangle Improvements	120	676	—	—	796	(796)	—
Prop IB – Hunter's View Transit Connection	—	510	—	—	510	(510)	—
Class II & III Bikeways	—	466	—	—	466	(216)	250
West Protal Improve School Access	—	135	—	—	135	(121)	14
Eastern Neighborhoods CBTBG	247	—	(243)	—	4	(4)	—
Total operating in nature grants	\$ 5,913	2,182	(492)	—	7,603	(6,417)	1,186

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Operating in nature grants:							
TDA:							
Bicycle Parking Projects	12	—	(10)	—	2	—	2
Bicycle Safety Education Outreach	56	—	(49)	—	7	—	7
Bicycle Facility Implementation	667	—	(585)	—	82	—	82
Bicycle Safety Education & Outreach	41	—	(11)	—	30	(9)	21
Bicycle Facility Project	334	—	(4)	—	330	(45)	285
FY2012 Bicycle Safety Education & Outreach (686972)	—	30	—	—	30	(20)	10
FY2012 Bicycle Facility Project (686973)	—	325	—	—	325	(258)	67
Bridge Tolls (RM2):							
Improvement Bicycle Access to	1	—	—	—	1	(1)	—
Market St Safety Zone	281	—	(131)	—	150	(150)	—
Mission/Geneva Ped Improvements-Design	15	—	(1)	—	14	(14)	—
Mission/Geneva Ped Improvements-Construction	801	—	(4)	—	797	(160)	637
24th & Mission Ped Improvement-Design	73	—	(30)	—	43	(1)	42
24H & Mission Ped Improvement-Construction	357	—	(3)	—	354	(239)	115
Glen Park Area Bicycle - Design	3	—	(1)	—	2	—	2
Glen Park Area Bicycle - Construction	101	—	(60)	—	41	(23)	18
Improve Bicycle Access to 16th Bart Station	127	—	(114)	—	13	(13)	—
Balboa Park Stn Connection Ph II-Signals	722	—	(79)	—	643	(301)	342
Better Market Street	200	—	(33)	—	167	(2)	165
Total operating in nature grants	\$ 3,791	355	(1,115)	—	3,031	(1,236)	1,795

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Operating in nature grants:							
Bike Program Projects	\$ 1,726	1,293	(1,261)	(180)	1,578	(907)	671
Pedestrian Safety Program Projects	1,935	1,108	(1,019)	159	2,183	(1,915)	268
Traffic Calming Program Projects	3,515	3,167	(1,027)	(439)	5,216	(4,508)	708
Traffic Signal/Traffic Sign Projects	3,512	3,349	(1,815)	(746)	4,300	(2,936)	1,364
Transit Study & Street Improvement Projects	612	82	(109)	(131)	454	(327)	127
Total operating in nature grants	<u>\$ 11,300</u>	<u>8,999</u>	<u>(5,231)</u>	<u>(1,337)</u>	<u>13,731</u>	<u>(10,593)</u>	<u>3,138</u>
Pass-thru grants operating in nature:							
Bike Program Projects	\$ 940	578	(587)	(4)	927	(885)	42
Traffic Calming Projects	70	—	—	—	70	(70)	—
Traffic Signal Projects	73	—	—	—	73	(73)	—
Bike Program Projects	70	—	(62)	—	8	(8)	—
Transit Study & Street Improvement Projects	6	—	(4)	—	2	(2)	—
Total pass-thru grants operating in nature	<u>\$ 1,159</u>	<u>578</u>	<u>(653)</u>	<u>(4)</u>	<u>1,080</u>	<u>(1,038)</u>	<u>42</u>

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – Others

Year ended June 30, 2012

(In thousands)

	Authorized grants as of July 1, 2011	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2012	Amounts not expended as of June 30, 2012	Grants receivable as of June 30, 2012
Operating in nature grants:							
Folsom & Illions Bike Lanes	\$ 90	—	(90)	—	—	—	—
Alemaný Blvd - Bike Lane	130	—	(130)	—	—	—	—
7th Ave Traffic Calming	2	—	—	—	2	(2)	—
North Point St Bicycle Lanes, Between Embarcadero	43	—	(38)	—	5	(5)	—
Citywide Bike Rack Project	—	84	—	—	84	(11)	73
Lake Merced/Skyline - Bike Lane	—	67	—	—	67	(67)	—
Total operating in nature grants	<u>\$ 265</u>	<u>151</u>	<u>(258)</u>	<u>—</u>	<u>158</u>	<u>(85)</u>	<u>73</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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

Year ended June 30, 2012

(In thousands)

Project Number	Grant title	Allocation	Beginning Balance July 1, 2011	Interest Earned	Additions	Reassigned Interest Earnings	Expenditures	Ending Balance June 30, 2012
First Allocation Fiscal Year 2007 - 2008								
CPT522	Third Street Light Rail	\$ 3,700	2,831	31	—	—	127	2,735
CPT588	Automated Passenger Count Equipment	2,500	1,400	8	—	(68)	1,299	41
CPT447	Overhead Rehabilitation: 5 Fulton and 21Hayes Bus Lines	3,000	852	10	—	—	—	862
CPT613	Farebox Rehabilitation & Neoplan Lifecycle Rehabilitation	20,000	2,743	19	—	(761)	1,682	319
CPT531	Geneva Yard - Historic Street Car Enclosure Facility & Central Subway	7,500	2,357	15	—	(175)	1,778	419
	Sub-total	36,700	10,183	83	—	(1,004)	4,886	4,376
Second Allocation Fiscal Year 2007 - 2008								
CPT522	Third Street Light Rail	9,700	2,044	23	—	—	16	2,051
CPT303	Operator Restrooms	2,965	2,830	31	—	—	160	2,701
CPT560	Wayside Fare Collection Equipment	1,000	44	1	—	—	—	45
	Sub-total	13,665	4,918	55	—	—	176	4,797
First Allocation Fiscal Year 2008-2009								
CPT544; CPT579 and CPT595	Central Subway; Wayside Central Control and Muni Rail Replacement	30,000	11,459	116	—	(471)	2,238	8,866
CPT630	Interim Line Management Center	400	408	4	—	—	—	412
CPT630	Light Rail Operations Control Center Improvements	1,300	1,154	13	—	—	—	1,167
CPKA74	Persia Triangle Transit Access Improvements	127	123	1	—	—	—	124
CPKA66	Randolph, Farallones, and Orizaba Transit Access Pedestrian Safety	85	61	1	—	—	12	50
	Sub-total	31,912	13,205	135	—	(471)	2,250	10,619
Third Allocation Fiscal Year 2007-2008 and Second Allocation 2008-2009								
CPT591	Light Rail Vehicle Rehabilitation Program	3,638	3,679	39	—	—	1,705	2,013
CPT544	Construction of Central Subway Light Rail Line	352	358	2	—	—	353	7
CPT630	High Speed Connectivity and Communications Upgrade	817	823	10	—	—	18	815
	Sub-total	4,807	4,860	51	—	—	2,076	2,835
Third Allocation Fiscal Year 2008-2009								
CPT591	Light Rail Vehicle Rehabilitation Program	5,262	5,275	59	—	—	—	5,334
CPT626	Light Rail Vehicle Collision Repairs	3,831	3,841	30	—	—	3,820	51
CPT544	Construction of Central Subway Light Rail Line	719	720	5	—	—	719	6
	Sub-total	9,812	9,836	94	—	—	4,539	5,391
First Allocation Fiscal Year 2009-2010								
CPT544	Construction of Central Subway Light Rail Line	20,216	—	—	20,216	—	3,179	17,037
CPT626	Light Rail Vehicle Restoration	770	—	—	770	—	—	770
CPT653	Balboa Park Station Eastside Connections	864	—	—	864	—	—	864
CPKE96	Hunter's View Revitalization Transit Stop Connection	510	—	—	510	—	—	510
CPT631	Motor Coach Component Rehab	700	—	—	700	—	—	700
Unassigned	Interest Earned on First Allocation FY2009-2010	—	—	143	—	—	—	143
	Sub-total	23,060	—	143	23,060	—	3,179	20,024

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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

Year ended June 30, 2012

(In thousands)

Project Number	Grant title	Allocation	Beginning Balance July 1, 2011	Interest Earned	Additions	Reassigned Interest Earnings	Expenditures	Ending Balance June 30, 2012
Second Allocation Fiscal Year 2009 - 2010								
CPT544	Construction of Central Subway Light Rail Line	16,045	—	75	16,045	—	—	16,120
CPKA66	Randolph, Farallones, and Orizaba Transit Access Pedestrian Safety	395	—	—	395	—	—	395
	Sub-total	<u>16,440</u>	<u>—</u>	<u>75</u>	<u>16,440</u>	<u>—</u>	<u>—</u>	<u>16,515</u>
Third Allocation Fiscal Year 2009-2010								
CPT544	Construction of Central Subway Light Rail Line	\$ 48,400	—	13	48,400	—	—	48,413
Pending	Persia Triangle Improvements	676	—	—	676	—	—	676
	Sub-total	<u>49,076</u>	<u>—</u>	<u>13</u>	<u>49,076</u>	<u>—</u>	<u>—</u>	<u>49,089</u>
Reassigned Interest Earnings								
CPT665	Central Subway Goodwill	—	—	—	—	1,300	935	365
CPT656	Paratransit Mobile Van Data Terminals	—	—	—	—	175	14	161
	Sub-total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,475</u>	<u>949</u>	<u>526</u>
	Total	<u>\$ 185,472</u>	<u>43,002</u>	<u>649</u>	<u>88,576</u>	<u>—</u>	<u>18,055</u>	<u>114,172</u>

See accompanying independent auditors' report.



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**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, 2012, and have issued our report thereon dated October 26, 2012. 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

Management of SFMTA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered SFMTA's internal control over financial reporting by obtaining an understanding of SFMTA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing test of controls as a basis for designing our auditing procedures 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 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 a 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 2012 audit, we did not identify any 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.

KPMG LLP

October 26, 2012