



SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Financial Statements
and Supplemental Schedules

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

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KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the San Francisco Municipal Transportation Agency (SFMTA) of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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 December 17, 2010 on our consideration of SFMTA internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 considered in assessing the results of our audit.



The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of SFMTA taken as a whole. The accompanying supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

December 17, 2010

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis

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(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, 2010. We encourage readers to consider the information presented here in conjunction with information contained in the financial statements. All amounts, unless otherwise noted, are expressed in thousands of dollars.

Financial Highlights

- The SFMTA's assets exceeded their liabilities by \$1,833,481 and \$1,829,338 at the close of fiscal years ended June 30, 2010 and 2009, respectively.
- The SFMTA's total net assets increased by \$4,143 in 2010 and decreased by \$74,019 in 2009 over the prior fiscal years.
- Total net amount invested in capital assets were \$1,918,849 and \$1,902,859 at June 30, 2010 and 2009, respectively, an increase of 0.8% and a decrease of 1.5% over the balances of \$1,902,859 and \$1,932,340 at June 30, 2009 and 2008, respectively.

Overview of the Financial Statements

This discussion and analysis section is intended to serve as an introduction to the SFMTA's financial statements. The SFMTA financial statements include the San Francisco Municipal Railway (Muni), San Francisco Municipal Railway Improvement Corporation (SFMRIC), the operations of the Department of Parking and Traffic (DPT) including the Division of Taxis operations, and the five non-profit garage corporations. Muni provides transit service within the City and County of San Francisco (the City). SFMRIC is a nonprofit corporation established to provide capital financial assistance on behalf of the City for the modernization of Muni by purchasing equipment and improving facilities. SFMRIC has no employees. The DPT operation manages 40 City-owned garages, metered parking lots and all traffic engineering functions with the City. The parking garages accounted for activities of non-profit corporations whose operations are to provide financial and other assistance to the City to acquire land, construct facilities, and manage various facilities. The operations of former Taxi Commission have been merged with SFMTA as the Division of Taxis and Accessible services. SFMTA now has the power to regulate the taxi industry and other motor vehicles for hire in San Francisco. As explained in Note 2(a) to the financial statements (found on page 20), the SFMTA applies Governmental Accounting Standards Board (GASB) Statements. The SFMTA is an integral part of the City and these financial statements are included in the City's Comprehensive Annual Financial Report. More information regarding the SFMTA's organization and the basis of presentation are contained in Notes 1 and 2(a).

The statement of net assets (found on pages 15 and 16) presents information on all of the SFMTA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or 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, 2010.

The statement of revenues, expenses, and changes in net assets (found on page 17) presents information showing how the SFMTA's net assets changed during the fiscal year ending June 30, 2010. 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

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flows. Revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

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

Notes to Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 20 through 40 of this report.

Other Information

The supplemental schedules found on pages 41 through 54 of this report are presented for the purpose of additional analysis and are not a required part of the financial statements.

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Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the SFMTA, assets exceeded liabilities by \$1,833,481 at the close of the most recent fiscal year.

Condensed Summary of Net Assets

June 30, 2010, 2009, and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Total current assets	\$ 354,070	289,594	296,521
Total restricted assets	24,669	39,641	62,526
Total other noncurrent assets	1,883	2,029	1,460
Capital assets	<u>1,968,957</u>	<u>1,957,660</u>	<u>1,993,992</u>
Total assets	<u>2,349,579</u>	<u>2,288,924</u>	<u>2,354,499</u>
Liabilities:			
Total current liabilities	227,894	193,273	204,737
Total noncurrent liabilities	<u>288,204</u>	<u>266,313</u>	<u>246,405</u>
Total liabilities	<u>516,098</u>	<u>459,586</u>	<u>451,142</u>
Net assets:			
Invested in capital assets, net of related debt	1,918,849	1,902,859	1,932,340
Restricted net assets	20,262	32,974	31,936
Unrestricted net assets	<u>(105,630)</u>	<u>(106,495)</u>	<u>(60,919)</u>
Total net assets	<u>\$ 1,833,481</u>	<u>1,829,338</u>	<u>1,903,357</u>

Fiscal Year 2010

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

The largest portion of the SFMTA's net asset (\$1,918,849 as of June 30, 2010) reflects its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in-progress). The value of these assets of \$3,124,499 is offset by accumulated depreciation of \$1,155,542 and related debt of \$50,108. More information can be found in Note 5 on page 27. The SFMTA uses these assets to provide services.

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

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Fiscal Year 2009

The SFMTA's net assets decreased by \$74,019 with the unrestricted net assets deficit position higher compared to the prior year. The decrease in net assets is attributable to an increase in operating expenses with corresponding decreases in capital contribution and nonoperating revenues, and offset by an increase in operating subsidy from the general fund.

The largest portion of the SFMTA's net asset (\$1,902,859 as of June 30, 2009) reflects its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, and construction-in-progress). The value of these assets of \$3,015,291 is offset by accumulated depreciation of \$1,057,631 and related debt of \$54,801. More information can be found in Note 5 on page 28. The SFMTA uses these assets to provide services.

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

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

Years ended June 30, 2010, 2009, and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues:			
Total operating revenues	\$ 303,117	257,083	257,341
Total nonoperating revenues, net	223,978	239,505	235,654
Capital contributions:			
Federal	88,038	37,435	59,099
State and others	44,883	25,170	78,296
Total capital contributions	132,921	62,605	137,395
Net transfers	239,058	227,259	206,858
Total revenues and net transfers	899,074	786,452	837,248
Expenses:			
Total operating expenses	894,931	860,471	827,183
Change in net assets	4,143	(74,019)	10,065
Total net assets – beginning	1,829,338	1,903,357	1,893,292
Total net assets – ending	\$ <u>1,833,481</u>	<u>1,829,338</u>	<u>1,903,357</u>

Fiscal Year 2010

Total revenues and net transfers for the year ended June 30, 2010 were \$899,074, an increase of \$112,622, or 14.3%, compared to the prior fiscal year. This is due primarily to increase in operating revenues and in capital contributions.

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Operating revenues increased by \$46,034, or 17.9%. This is comprised mostly of passenger fares increases by \$35,516 or 23.6% and garage and meter revenues by \$7,957 or 9.4% as a result of the 33% cash fare rate increase, from \$1.50 to \$2.00 and rate increases in various monthly passes, that went into effect in July 2009. In addition to advertising revenues, other operating revenues increases include taxi revenues reported this fiscal year under SFMTA contributing to the increase of \$2,821 or 21.18% compared to prior year. These revenue increases were offset by the net decrease in rental revenues of \$494 or 7.9%.

The nonoperating revenue category includes operating support received from other sources, primarily federal and state operating grants, fines and interest income. Nonoperating revenues decreased by \$15,527 or 6.5%, due to reduction in operating grants revenues and in citation revenues for the portion of State of California's share of parking compliance fines collected by SFMTA. Capital contributions consist principally of funds received or receivable from federal, state and local grant agencies that provide funding for many of the SFMTA's capital projects. There were more capital expenditures incurred and billable to the grantors in fiscal year 2010 than in the prior year. This attributed to the significant increase in capital contribution by \$70,316 or 112.3% when compared to fiscal year 2009. Net transfers increased by \$11,799, or 5.2%, in fiscal year 2010 compared to prior year, partly attributable to increase in subsidy from the City's General Fund support.

Total operating expenses for the year ended June 30, 2010 were \$894,931, an increase of \$34,460, or 4.0%, compared to the previous year. The resulting net increases are comprised of trend changes from various expense categories. Personnel service costs increased by \$4,149, or 0.7%. The increase is attributable to increases in fringe benefits and the increase in other postemployment benefits (OPEB) compared to prior year. The cost of contractual services increased by \$2,565 or 4.8% compared to prior year. Materials and supplies increased by \$7,288, or 15.27%. The increases for both contractual services and material and supplies expenses are mostly attributable to costs associated with rehabilitation and repair of aging fleet to bring vehicles into a state of good repair. Depreciation expense increased by \$13,026, or 12.5% compared to prior year. This is primarily attributable to the depreciation of a significant amount of capital assets related to the building and equipment that were put into service in the prior fiscal year. General and administrative expenses increased by \$7,033 or 19.4% mainly due to higher judgment and claims estimates. Services provided by other city departments decreased by \$1,398 or 2.5% in fiscal year 2010. The increase in other operating expense category by \$1,797 or 117.1 % is primarily due to a net increase in noncapitalizable costs compared to the previous year.

Fiscal Year 2009

Total revenues and net transfers for the year ended June 30, 2009 were \$786,452, a decrease of \$50,796, or 6.1%, compared to the prior fiscal year. The decrease is due primarily to decline in capital contributions offset by an increase in operating transfers.

Operating revenues slightly decreased by \$258, or 0.1%. Transit passenger fares increased by \$551 or 0.37%. There were also increases in advertising, property rental and other operating revenues totaling to \$1,440 or 6.9% compared to prior year. These increases were offset by the net decrease in garage revenues by \$2,249 or 2.6%. Nonoperating revenues increased by \$3,851, or 1.6%, mostly from increase in federal grants. This category includes operating support received from other sources, primarily federal and state operating grants. 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 less capitalized expenditures incurred and

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billable to the grantors in fiscal year 2009 than in the prior year. This attributed to the significant decrease in capital contribution by \$74,790 or 54.4% when compared to fiscal year 2008. Net transfers increased by \$20,401, or 9.9%, in fiscal year 2009 compared to prior year, partly attributable to increase in subsidy from the City's General Fund for budgetary fund support.

Total expenses for the year ended June 30, 2009 were \$860,471, an increase of \$33,288, or 4.0%, compared to the previous year. The resulting net increases are comprised of trend changes from various expense categories. Personnel service costs increased by \$24,554, or 4.6%. The increase is attributable to increases in salaries, fringe benefits and the increase in other postemployment benefits (OPEB) compared to prior year. This is the second year of the City's implementation of the Government Accounting Standard Board Statement 45 reporting on other post retirement benefits. Contractual services increased by \$4,126. The net increases are due to higher costs in security services and parking meter contract services. Materials and supplies decreased by \$2,711, or 5.4%, due to decrease in fuel costs. Depreciation expense increased by \$2,448, or 2.4% compared to prior year. This is primarily attributable to the depreciation of a significant amount of capital assets related to the Third Street Light Rail Infrastructure that were put into service in the prior fiscal year. Services provided by other city departments significantly increased by \$12,928 or 29.35% in fiscal year 2009. The City department services with significant increase in costs include the following: a) the City Attorney's Office expanded services for legal assistance on claims, major contracts and federally funded capital projects related to Economic Stimulus fund; b) City's Information Technology services provided to SFMTA for telecommunication, wireless, and telephone installation costs related to office move; c) share of the City's 311 Customer Service Center's costs as more calls received were for transit-related information and; d) share of cost for the new city-wide human resource system project under implementation by City's Human Resources.

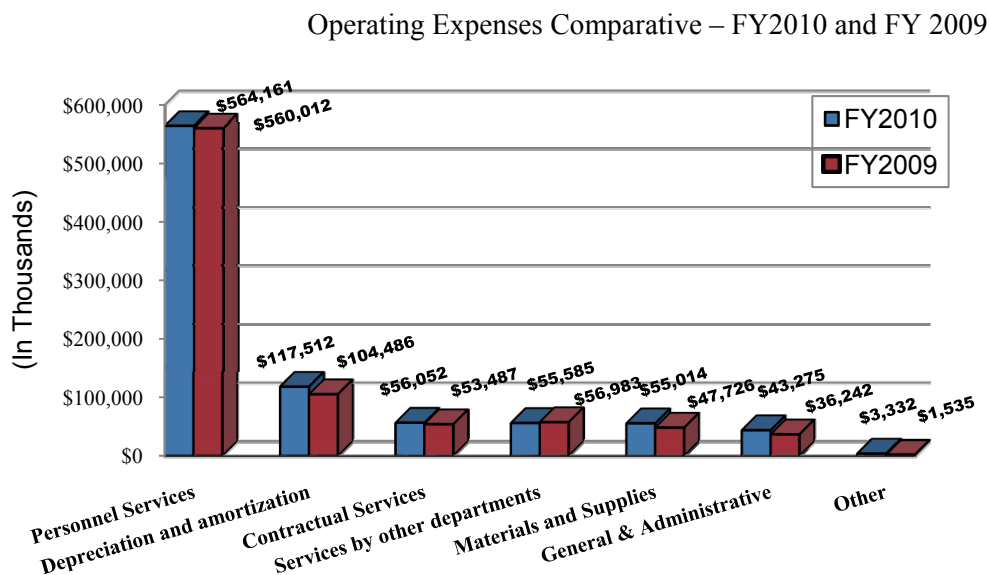
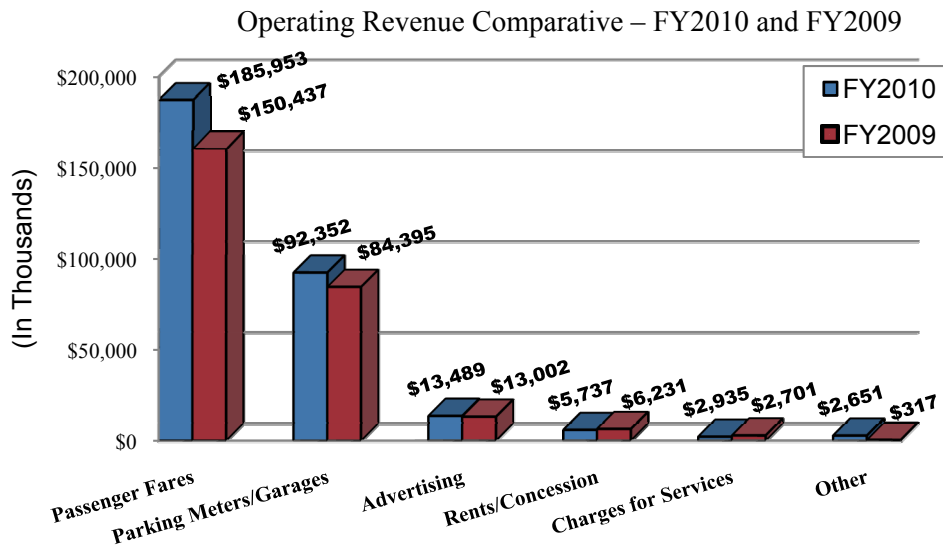
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The charts below illustrate the SFMTA's operating revenues by source and expenses by category for FY2010 and FY2009.



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Capital Assets and Debt Administration

Capital Assets

The SFMTA's investment in capital assets amounts to \$1,968,957, net of accumulated depreciation at June 30, 2010. This investment includes land, building structures and improvements, equipment, infrastructure, intangibles and construction-in-progress. The increase in capital assets is \$11,297 or 0.6%, compared to the previous year. This increase is attributed to continued construction work for new and existing projects, with a corresponding increase in depreciation expense for existing assets.

Summary of Capital Assets

	<u>Balance, June 30, 2010</u>	<u>Balance, June 30, 2009</u>	<u>Balance, June 30, 2008</u>
Capital assets not being depreciated:			
Land	\$ 26,245	26,245	26,245
Construction-in-progress	<u>181,306</u>	<u>110,563</u>	<u>263,779</u>
Total capital assets not being depreciated	<u>207,551</u>	<u>136,808</u>	<u>290,024</u>
Capital assets being depreciated:			
Building structures and improvements	605,761	594,010	415,686
Equipment	1,193,521	1,176,718	1,140,300
Infrastructure	<u>1,117,666</u>	<u>1,107,755</u>	<u>1,101,857</u>
Total capital assets being depreciated	<u>2,916,948</u>	<u>2,878,483</u>	<u>2,657,843</u>
Less accumulated depreciation for:			
Building structures and improvements	200,850	187,507	177,653
Equipment	582,485	530,139	468,546
Infrastructure	<u>372,207</u>	<u>339,985</u>	<u>307,677</u>
Total accumulated depreciation	<u>1,155,542</u>	<u>1,057,631</u>	<u>953,876</u>
Total capital assets being depreciated, net	<u>1,761,406</u>	<u>1,820,852</u>	<u>1,703,967</u>
Total capital assets, net	<u>\$ 1,968,957</u>	<u>1,957,660</u>	<u>1,993,991</u>

Phase II of the Third Street Light Rail Project, the "Central Subway" Project proceeded with detail design. 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 issued its first construction contract for the relocation of utilities in the vicinity of the Moscone station and along 4th Street to the entry portal beneath Interstate Highway 80. The design for the second utility relocation contract for the Union Square /Market Station was completed and is being prepared for bidding. In January 2010, the Federal Transportation Administration (FTA) approved the entry into final design and in March, the SFCTA approved Prop K funding for final design. Notice to proceed has been given to the contractors for design of the tunnel, stations and systems. The design

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work moved forward from a new project office at Brannan Street which allows for all the design resources to be located in a single location. This year's budget submission includes funding necessary to advance this critical project for the City.

The SFMTA received additional cash advance of \$37 million in FY2010 from State Proposition 1B. The bond measure was composed of several funding programs solely for public transit projects. The amount received was recorded as grants received in advance under current liabilities.

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

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

Other significant capital asset additions during the fiscal year 2009 included:

- Infrastructure – Majority of the \$24.5 million costs incurred are for the new central subway project, the rail replacement project, and reconstruction work on overhead wire on trolley lines.
- Building – Additional construction costs of \$8.7 million was incurred in fiscal year 2009 for the completion of Metro East Facility as well as for escalator replacement project.
- Equipment – The cost of \$34.8 million incurred during the fiscal year includes acquisition cost for paratransit vans, refurbishment and modernization of farebox collection system, replacement cost for new radio communication system on SFMTA fleets, Light rail automatic train control system, automatic vehicle location/tracking system, and for the renovation and rehabilitation of cable cars.

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Debt Administration

At June 30, 2010 and 2009, the SFMTA's debt obligations outstanding totaled \$50,108 and \$54,801, respectively. These amounts represent mostly bonds secured by revenue sources from parking garage revenues and meter collections, including \$753 and \$907 unamortized bond premium costs for 2010 and 2009, respectively. The SFMTA's total debt decreased by \$4,693 or 8.5% at June 30, 2010 primarily due to maturities of existing debts. No bonds were issued during the year ending June 30, 2010. The following table summarizes the changes in debt between fiscal year 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Bonds payable	\$ 50,108	52,319
Notes and capital leases payables	—	2,482
Total	<u>\$ 50,108</u>	<u>54,801</u>

Additional information about the SFMTA's debt is presented in Note 7 to the financial statements.

Leveraged Lease-Leaseback of Breda Vehicles

In April 2002, Muni entered into the leveraged lease-leaseback transaction for 118 Breda light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. The sublease provides Muni with an option to purchase the Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment.

Muni received an aggregate of \$388.2 million from the equity investors in full prepayment of the head lease. Muni deposited a portion of this amount into an escrow, and a portion paid to a debt payment undertaker whose repayment obligations is guaranteed by Financial Security Assurance, Inc., an "AAA/Aa3" rated bond insurance company.

Muni recorded deferred revenue in fiscal year 2002 of \$35.5 million for the difference between the amount received of \$388.2 million and the amount paid to the escrows of \$352.7 million. The deferred revenue amortized in fiscal year 2010 amounted to \$1.3 million.

In September 2003, after obtaining final approval from the SFMTA Board of Directors and the City's Board of Supervisors, Muni entered into a second leveraged lease-leaseback transaction for 21 Breda light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides Muni with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis

June 30, 2010 and 2009

(Dollars in thousands, unless otherwise noted)

Muni received an aggregate of \$72.6 million from the equity investors in full prepayment of the head lease. Muni deposited a portion of this amount into an escrow, and a portion paid to a debt payment undertaker whose repayment obligation is guaranteed by Financial Security Assurance, Inc., an "AAA/Aa3" rated bond insurance company. Approximately \$67.5 million of this head lease payment was deposited into two escrows. The deferred revenue amortized in fiscal year 2010 amounted to \$0.2 million.

Economic Factors and Next Year's Budget

The nation-wide economic recession that started in December 2007 continued to impact SFMTA well into FY 2009-2010. With an increasing unemployment rate, weak retail sales, a decline in tourism and in housing and commercial real estate prices, the City witnessed a corresponding decline in revenues as a result of decreased discretionary spending. The resulting tax revenue declines in property, payroll, sales, and hotel taxes forced reductions in general government services and put pressures on the City's General Fund.

Significant reductions in state and local funding have led to an initially projected \$128.9 million deficit over the originally approved budget of \$816.7 million for FY 2009-2010. To balance its FY 2009-2010 Amended Operating Budget, the SFMTA Board of Directors declared a fiscal emergency in April 2009. The Board reviewed proposed solutions aimed at cutting expenses and adding revenue sources. Some measures taken to eliminate the budget gap included increases in fares and various fines and fees that support transit service, use of the established reserve, eliminating positions, a hiring freeze, wage rollbacks and layoffs.

The continued economic downturn has once again impacted the two year budget cycle for FY 2010-2011 and FY 2011-2012. The SFMTA fund balance (reserves) has been depleted and the Agency will continue to receive reduced funding from State and local governments. The SFMTA Board approved a 10% reduction of Transit Service effective on May 8, 2010 to keep service costs in line with the available resources. However, the SFMTA received a \$14 million one-time grant from State Transit Assistance, and \$1.6 million Lifeline Grant that will be used in restoring some of the May 2010 service line reductions in September 2010. The SFMTA has reduced its work order budget by \$3.4 million and deleted 189 positions (FTE) and further defunded its vacant positions, resulting in an \$18 million savings in salaries and fringe benefits.

With an ever changing economic and political environment and increased responsibilities, the SFMTA must focus on efficiency and sustainability and must evolve to meet the challenges in the years ahead. In addition to its fiscal responsibility to develop balanced budget, SFMTA implemented a major restructuring of the Agency during FY 2009-2010 with goals to plan, design, build and operate San Francisco's pedestrian, bicycle, transit, taxi and automobile networks and integrate these modes into a seamless transportation system. The desired outcome of this reorganization would be improved efficiency, project delivery, transparency and customer satisfaction.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis

June 30, 2010 and 2009

(Dollars in thousands, unless otherwise noted)

Requests for Information

This report is designed to provide a general overview of the SFMTA's finances for all those with a general interest. The financial statements and related disclosures in the notes to the financial statements and supplemental information are presented in accordance with U.S. generally accepted accounting principles. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, SFMTA Finance and Information Technology Services, One South Van Ness Avenue, 8th Floor, San Francisco, CA 94103.

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

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Net Assets

June 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Assets:		
Current assets:		
Deposits and investments with City Treasury	\$ 232,862	191,672
Deposits and investments held outside City Treasury	3,349	2,445
Cash on hand	494	416
Receivables:		
Grants	46,843	34,732
Due from the San Francisco County Transportation Authority	7,904	2,696
Due from other City departments	—	9
Charges for services (net of allowance for doubtful accounts of \$263 and \$108 in 2010 and 2009, respectively)	4,849	3,335
Interest and other	<u>3,409</u>	<u>3,416</u>
Total receivables	63,005	44,188
Inventories	51,671	50,226
Current deferred charges	<u>2,689</u>	<u>647</u>
Total current assets	<u>354,070</u>	<u>289,594</u>
Restricted assets:		
Deposits and investments with City Treasury:	9,293	20,862
Deposits and investments held outside City Treasury	11,295	14,420
Other receivables	<u>4,081</u>	<u>4,359</u>
Total restricted assets	24,669	39,641
Noncurrent assets:		
Deferred charges and other assets	1,883	2,029
Capital assets	<u>1,968,957</u>	<u>1,957,660</u>
Total noncurrent assets	<u>1,995,509</u>	<u>1,999,330</u>
Total assets	\$ <u><u>2,349,579</u></u>	<u><u>2,288,924</u></u>

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Net Assets

June 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Liabilities:		
Current liabilities:		
Due to other funds	\$ 1,015	1,315
Accounts payable and accrued expenses	64,531	41,033
Accrued payroll	25,307	23,870
Accrued vacation and sick leave	16,873	16,868
Accrued workers' compensation	15,506	17,003
Accrued claims	20,349	18,382
Grants received in advance	65,314	48,634
Deferred revenue and other deferred credits	11,213	14,808
Payable from restricted assets	4,407	6,667
Accrued interest payable	119	154
Bonds, loans, capital leases and other payables	3,260	4,539
Total current liabilities	<u>227,894</u>	<u>193,273</u>
Noncurrent liabilities:		
Accrued vacation and sick leave	11,457	11,774
Accrued workers' compensation	76,491	73,082
Accrued claims	26,572	29,083
Other postemployment benefits obligation	99,993	73,785
Deferred revenue and other deferred credits	26,843	28,327
Bonds, loans, capital leases and other payables	46,848	50,262
Total noncurrent liabilities	<u>288,204</u>	<u>266,313</u>
Total liabilities	<u>\$ 516,098</u>	<u>459,586</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 1,918,849	1,902,859
Restricted	20,262	32,974
Unrestricted	<u>(105,630)</u>	<u>(106,495)</u>
Total net assets	<u>\$ 1,833,481</u>	<u>1,829,338</u>

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Revenues, Expenses, and Changes in Net Assets

June 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Passenger fares	\$ 185,953	150,437
Rents and concessions	5,737	6,231
Parking and transportation	92,352	84,395
Charges for services	2,935	2,701
Advertising	13,489	13,002
Other	2,651	317
Total operating revenues	<u>303,117</u>	<u>257,083</u>
Operating expenses:		
Personnel services	564,161	560,012
Contractual services	56,052	53,487
Materials and supplies	55,014	47,726
Depreciation and amortization	117,512	104,486
Services from other City departments	55,585	56,983
General and administrative	43,275	36,242
Other operating expenses	3,332	1,535
Total operating expenses	<u>894,931</u>	<u>860,471</u>
Operating loss	<u>(591,814)</u>	<u>(603,388)</u>
Nonoperating revenues (expenses and losses):		
Operating assistance:		
Federal	38,393	13,277
State and other grants	73,990	104,490
Interest income	4,927	6,833
Interest expense	(2,569)	(2,747)
Licenses, permits and franchises	8,242	7,545
Fines, forfeitures and penalties	89,290	99,355
Other, net	11,705	10,752
Total nonoperating revenues, net	<u>223,978</u>	<u>239,505</u>
Loss before capital contributions and transfers	<u>(367,836)</u>	<u>(363,883)</u>
Capital contributions:		
Federal	88,038	37,435
State and others	44,883	25,170
Total capital contributions	<u>132,921</u>	<u>62,605</u>
Transfers in:		
City and County of San Francisco – General Fund	236,920	229,691
San Francisco County Transportation Authority	15,466	13,230
City and County of San Francisco – Other City departments	518	—
Total transfers in	<u>252,904</u>	<u>242,921</u>
Transfers out:		
City and County of San Francisco – Other City departments	(4,858)	(4,675)
City and County of San Francisco – Street Improvement Fund	(8,988)	(10,987)
Net transfers	<u>239,058</u>	<u>227,259</u>
Change in net assets	<u>4,143</u>	<u>(74,019)</u>
Total net assets – beginning of year	<u>1,829,338</u>	<u>1,903,357</u>
Total net assets – ending of year	<u>\$ 1,833,481</u>	<u>1,829,338</u>

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from passengers and service contracts	\$ 334,392	289,084
Cash received from fines, forfeitures, penalties and other	107,233	113,804
Cash paid to employees for services	(535,125)	(519,784)
Cash paid to suppliers for goods and services	(225,001)	(208,451)
Cash paid for judgment and claims	(20,503)	(21,388)
Net cash used in operating activities	<u>(339,004)</u>	<u>(346,735)</u>
Cash flows from noncapital financing activities:		
Operating grants	117,469	105,772
Net transfers	239,533	227,466
Transit impact development fee received	484	3,687
Other noncapital increases (decreases)	(790)	6,515
Net cash provided by noncapital financing activities	<u>356,696</u>	<u>343,440</u>
Cash flows from capital and related financing activities:		
Capital grants	126,396	73,230
Proceeds from sale of capital assets	20	6
Acquisition of capital assets	(115,161)	(67,549)
Principle payments on bonds and other payables	(4,652)	(7,201)
Interest paid on long term debt	(2,550)	(2,487)
Other capital increases (decreases)	349	(880)
Net cash provided by (used in) capital and related financing activities	<u>4,402</u>	<u>(4,881)</u>
Cash flows from investing activities:		
Purchases of investments with trustees	681	(4,557)
Proceeds from sale of investments with trustees – restricted	—	7,639
Interest income received	5,385	7,275
Net cash provided by investing activities	<u>6,066</u>	<u>10,357</u>
Net increase in cash and cash equivalents	28,160	2,181
Cash and cash equivalents – beginning of year	229,133	226,952
Cash and cash equivalents – end of year	\$ <u>257,293</u>	<u>229,133</u>

Capital assets purchased with accounts payable amounted to \$14.2 million and \$0.4 million as of the years ended June 30, 2010 and 2009.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (591,814)	(603,388)
Nonoperating revenue:		
Fines, forfeitures, penalties, and other	107,233	113,804
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	117,512	104,486
Provision for doubtful accounts	—	(1,015)
Changes in operating assets and liabilities:		
Receivables, net	(1,165)	4,057
Inventories	(1,445)	(3,530)
Deferred charges	(2,414)	5
Accounts payable and accrued expenses	8,968	3,202
Accrued payroll	1,229	2,289
Accrued vacation and sick leave	(312)	1,618
Accrued workers' compensation	1,912	(2,031)
Accrued claims	(544)	(8,515)
Accrued other postemployment benefits	26,208	38,347
Due to other funds	(780)	1,000
Deferred revenues and other deferred credits	(3,592)	2,936
Net cash used in operating activities	\$ <u>(339,004)</u>	<u>(346,735)</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Deposits with City Treasury:		
Unrestricted	\$ 232,862	191,672
Restricted	9,293	20,862
Deposits held outside City Treasury:		
Unrestricted	3,349	2,445
Restricted	<u>11,295</u>	<u>14,420</u>
Total deposits and investments	256,799	229,399
Less: Investments outside City Treasury not meeting the definition of cash equivalents	—	(682)
Cash on hand	<u>494</u>	<u>416</u>
Total cash and cash equivalents, end of year	\$ <u>257,293</u>	<u>229,133</u>

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands, unless otherwise noted)

(1) Description of Reporting Entity

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors. The SFMTA financial statements include the San Francisco Municipal Railway (Muni), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), the SFMTA's Division of Parking and Traffic (DPT) with the Taxi Regulatory services, and five nonprofit parking garage corporations operated by separate nonprofit corporations, whose operations are interrelated. All significant inter-entity transactions have been eliminated. The SFMTA is an integral part of the City and these statements are reported as a major fund in the City's Comprehensive Annual Financial Report.

Proposition E passed by the San Francisco voters in November 1999 amended the City Charter, calling for the creation of the SFMTA by consolidating Muni and DPT 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 Division of Parking and Traffic operation 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 promotes the safe and efficient movement of people and goods throughout the City. As of March 2009, the former Taxi Commission has been merged with the SFMTA as the Division of Taxis and Accessible Services. SFMTA has regulatory power to the taxi industry and other motor vehicles for hire in San Francisco.

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

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

(2) Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

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

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, 2010 and 2009

(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.

Governmental Accounting Standards Board (GASB) No. 51

For fiscal year ending June 30, 2010, the SFMTA has adopted the provisions of GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*. This Statement establishes standards for the recognition and measurement of intangible assets including easements and computer software.

This Statement requires all capitalized intangible assets be classified as capital assets and recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated, and internally generated computer software. This Statement also establishes guidance specific to intangible assets related to amortization. As a result of adoption of GASB No. 51, SFMTA has identified certain equipment as intangible assets in the amount of \$11.9 million for fiscal year ended June 30, 2010.

Governmental Accounting Standards Board (GASB) No. 45

The SFMTA follows the provisions of GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of *other postemployment benefits* (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

This Statement improves the relevance and usefulness of financial reporting by:

- Requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service; and
- Providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Employers that participate in *single-employer* or *multiple-employer defined benefit* OPEB plans (sole and agent employers) are required to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer's annual required contribution to the plan (ARC), with certain adjustments if the employer has a net OPEB obligation for past under- or over-contributions.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands, unless otherwise noted)

Governmental Accounting Standards Board (GASB) No. 49

For fiscal year ending June 30, 2009, the SFMTA has adopted the provisions of GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. To provide governments with better accounting guidance and consistency, GASB Statement 49, identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem
- A government has violated a pollution prevention-related permit or license
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

As of June 30, 2010 and 2009, no environmental liability is reported in the accompanying statement of net assets.

(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.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands, unless otherwise noted)

Of the \$11,295 and \$14,420 restricted deposits and investments of SFMTA which are held outside the City Treasury, as of June 30, 2010 and 2009, \$11,295 and \$13,738, respectively, are considered cash equivalents as they meet the definition of cash equivalents.

(c) Investments

In accordance with GASB Statement No. 31, the SFMTA record 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.

(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.

Effective July 1, 2002, any full-time employee leaving employment with the City upon service or disability retirement may receive payment of a portion of sick leave credits at the time of separation. The amount of this payment equals 2.5% of accrued sick leave credits at the time of separation,

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands, unless otherwise noted)

multiplied by the number of whole years of continuous employment, multiplied by the employee's salary rate, exclusive of premiums or supplements, at the time of separation. The number of hours for which an employee may receive cash payments cannot exceed one thousand forty (1,040) hours, including any vested sick leave. The Wellness Incentive program terminated on June 30, 2010.

(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.

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

(j) Transit Impact Development Fees

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

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands, unless otherwise noted)

(k) *Use of Estimates*

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

(l) *Reclassifications*

Certain reclassifications were made in the 2009 financial statements to conform to the 2010 presentation.

(3) Net Assets

Net assets as of June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Restricted assets:		
Deposits and investments with City Treasury	\$ 9,293	20,862
Deposits and investments outside City Treasury (see note below)	11,295	14,420
Receivables	4,081	4,359
Total restricted assets	<u>24,669</u>	<u>39,641</u>
Restricted liabilities of:		
Others	<u>(4,407)</u>	<u>(6,667)</u>
Total restricted liabilities	<u>(4,407)</u>	<u>(6,667)</u>
Restricted assets, net	<u>\$ 20,262</u>	<u>32,974</u>
Net assets:		
Restricted:		
Debt service	\$ 3,408	3,429
Other purposes	16,854	29,545
Total restricted net assets	20,262	32,974
Unrestricted	(105,630)	(106,495)
Invested in capital assets, net of related debt	1,918,849	1,902,859
Net assets	<u>\$ 1,833,481</u>	<u>1,829,338</u>

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(4) Deposits and Investments

The SFMTA maintains its deposits and investments with the City Treasury and a portion of its restricted asset deposits as part of the City's pool of deposits and investments. The City's investment pool is invested in 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, 2010 and 2009, the SFMTA's unrestricted deposits and investments with City Treasury were \$232,862 and \$191,672, respectively.

The restricted deposits and investments outside the City Treasury are mostly related to issuance of bonds with the trustees. As of June 30, 2010 and 2009, the SFMTA had restricted deposits and investments with the trustees of \$11,295 and \$14,420, respectively. Of these deposits, \$11,295 and \$13,738 meet the definition of cash and cash equivalents as of June 30, 2010 and 2009, respectively.

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
—%	2.9%	16.6%	80.5%

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

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(5) Capital Assets

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

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

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

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Capital asset balances and their movements as of and for the year ended June 30, 2009 and 2008 are as follows:

	Balance, July 1, 2008	Increases	Decreases	Balance, June 30, 2009
Capital assets not being depreciated:				
Land	\$ 26,245	—	—	26,245
Construction-in-progress	263,779	68,020	(221,236)	110,563
Total capital assets not being depreciated	290,024	68,020	(221,236)	136,808
Capital assets being depreciated:				
Building structures and improvements	415,686	178,324	—	594,010
Equipment	1,140,300	37,177	(759)	1,176,718
Infrastructure	1,101,857	5,898	—	1,107,755
Total capital assets being depreciated	2,657,843	221,399	(759)	2,878,483
Less accumulated depreciation for:				
Building structures and improvements	177,653	9,854	—	187,507
Equipment	468,546	62,324	(731)	530,139
Infrastructure	307,677	32,308	—	339,985
Total accumulated depreciation	953,876	104,486	(731)	1,057,631
Total capital assets being depreciated, net	1,703,967	116,913	(28)	1,820,852
Total capital assets, net	\$ 1,993,991	184,933	(221,264)	1,957,660

Certain buses and vans were disposed during 2009. The net loss for sold assets is \$28 offset by proceeds of \$6 on sale of these capital asset items.

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(Dollars in thousands, unless otherwise noted)

Construction-in-progress consists of the following projects as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Rail replacement	\$ 16,131	9,829
Flynn Facility Air Quality	—	987
Historic Street Car Renovation	8,466	3,129
Farebox Rehabilitation	10,730	5,941
Cable Car Propulsion	3,454	2,415
Islais Creek-Woods Annex	8,816	7,078
Trolley Overhead Reconstruction	11,525	9,379
New Central Subway	70,571	44,967
Motor Bus Hybrid Procurement	5,620	—
Light rail vehicles	2,771	13,380
Wayside Fare Collection	4,775	1,406
LRV Tracks	9,142	—
Facility Upgrades	6,222	—
Sub-Station Traction	6,862	—
SFPark Meter	2,279	—
Radio Replacement	7,582	5,047
Others	6,360	7,005
	<u>\$ 181,306</u>	<u>110,563</u>

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were \$64,531 and \$41,033 at June 30, 2010 and 2009, respectively. This category consists of liabilities for goods and services either evidenced by vouchers approved for payment but not paid as of June 30, 2010, accrued expenses for amount owed to private persons or organization for goods and services, and construction contracts retainage payable.

	<u>2010</u>	<u>2009</u>
Vouchers payable	\$ 40,548	26,067
Accruals	22,671	13,470
Contracts retainage	1,312	1,496
Total accounts payable and accrued expenses	<u>\$ 64,531</u>	<u>41,033</u>

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

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

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been authorized, of which \$7,800 is available for issuance. As of June 30, 2010 and 2009, no bonds were outstanding under the TIP.

The City's electorate has approved various lease revenue bond propositions for the SFMTA for the construction of parking garages and surface lots of the City's neighborhood. Interest rates ranges from 3% to 6%.

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

	<u>Final maturity date</u>	<u>Remaining interest rate</u>	<u>Balance June 30, 2010</u>	<u>Balance June 30, 2009</u>
Parking and traffic:				
Revenue bonds	2020	4.45% – 5.00%	\$ 15,635	15,880
Lease Revenue bonds	2022	4.80% – 5.50%	5,846	6,165
Notes, loans and other payables			—	2,510
Downtown parking – parking revenue refunding bonds	2018	3.00% – 5.75%	7,918	8,725
Ellis–O'Farrell – parking revenue refunding bonds	2017	3.50% – 4.7%	3,409	3,825
Uptown parking – revenue bonds	2031	4.50% – 6.00%	17,300	17,696
Total long-term obligations			<u>\$ 50,108</u>	<u>54,801</u>

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(Dollars in thousands, unless otherwise noted)

The changes in long-term obligation for the SFMTA for years ended June 30, 2010 and 2009 are as follows:

	Balance July 1, 2009	Net increases	Net decreases	Balance June 30, 2010	Amount due within one year
Bonds payable:					
Revenue bonds	\$ 45,360		(1,825)	43,535	2,895
Lease revenue bonds	6,165		(345)	5,820	365
Add/less deferred amounts:					
For issuance premiums	794	—	(41)	753	—
Total bonds payable	52,319	—	(2,211)	50,108	3,260
Notes, loans and other payables	2,482		(2,482)	—	
Accrued vacation and sick leave	28,642	18,018	(18,330)	28,330	16,873
Accrued workers' compensation	90,085	17,680	(15,768)	91,997	15,506
Accrued claims	47,465	19,959	(20,503)	46,921	20,349
Deferred revenue and other deferred credits	43,135	3,860	(8,939)	38,056	11,213
Total long-term obligations	\$ 264,128	59,517	(68,233)	255,412	67,201
	Balance July 1, 2008	Net increases	Net decreases	Balance June 30, 2009	Amount due within one year
Bonds payable:					
Revenue bonds	\$ 46,875	—	(1,515)	45,360	1,825
Lease revenue bonds	7,310	—	(1,145)	6,165	345
Add/less deferred amounts:					
For issuance premiums	837	—	(43)	794	—
Total bonds payable	55,022	—	(2,703)	52,319	2,170
Notes, loans and other payables	6,980	—	(4,498)	2,482	2,369
Accrued vacation and sick leave	27,023	20,696	(19,077)	28,642	16,868
Accrued workers' compensation	92,116	14,510	(16,541)	90,085	17,003
Accrued claims	55,981	12,872	(21,388)	47,465	18,382
Deferred revenue and other deferred credits	41,987	7,770	(6,622)	43,135	14,808
Total long-term obligations	\$ 279,109	55,848	(70,829)	264,128	71,600

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June 30, 2010 and 2009

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The bond debt service requirements are as follows:

Year ending June 30	Principal	Revenue bonds interest	Total
2011	\$ 3,260	2,576	5,836
2012	3,405	2,426	5,831
2013	3,575	2,267	5,842
2014	3,750	2,097	5,847
2015	3,930	1,917	5,847
2016 – 2020	19,338	6,531	25,869
2021 – 2025	5,125	3,030	8,155
2026 – 2030	5,190	1,577	6,767
2031 – 2032	2,535	154	2,689
	\$ 50,108	22,575	72,683

Note: Principal amount includes bond premium of \$753

SFMTA must be in compliance with certain bond covenants.

The bond indenture for the SFMTA requires that certain funds be established and administered by a trustee. The funds to be maintained are to secure the payment of principal and interest, to provide for the operating obligations of the facility and safekeeping of surplus funds. These funds are as follows:

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

Revenue Fund receives corporate revenues.

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

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

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

The Trustee transfers any remaining amounts in the Revenue Fund to the *Surplus Revenue Fund* after first making deposits to the above funds. No later than two business days prior to 15th of each year, the nonprofit garage corporations transfer 85% of all monies deposited in the Surplus Revenue Fund to Muni and Recreation & Park accounts.

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Notes to Financial Statements

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(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 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 2010 and 2009 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 2010 and 2009, the actuarially determined contribution rate as a percentage of covered payroll was 9.49% and 4.99%, respectively. The SFMTA's required contribution was approximately \$30.4 million in 2010 and \$16.2 million in 2009.

The SFMTA's contributions to the Retirement System on behalf of its employees amounted to \$12,778 and \$13,001 for the years ended June 30, 2010 and 2009, which were equal to the required employee contributions for the year.

(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.

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(c) Healthcare Benefits

Health care 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 \$68,371 and \$63,711 in fiscal years 2010 and 2009, 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 \$21,695 and \$18,505 for fiscal year 2010 and 2009, respectively, to provide postretirement benefits for retired employees, on a pay-as-you-go basis. In addition, the City allocated an additional \$0 and \$409 in 2010 and 2009, respectively, to SFMTA's contribution allocation for payments made the Health Service System for postretirement health benefits.

The City has determined a City-wide annual required contribution, interest on net OPEB obligation, 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, 2010 and 2009 based upon its percentage of City-wide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for SFMTA for the fiscal years ended June 30, 2010 and 2009, the amounts contributed to the plan and changes in the net OPEB obligations:

	2010	2009
Annual required contribution	\$ 47,192	56,804
Interest on net OPEB obligation	3,294	1,761
Adjustment to ARC	(2,583)	(1,304)
Annual OPEB cost	47,903	57,261
Contribution made	(21,695)	(18,914)
Increase in net OPEB obligation	26,208	38,347
Net OPEB obligation, beginning of fiscal year	73,785	35,438
Net OPEB obligation, end of fiscal year	\$ 99,993	73,785

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(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 \$7.3 million for operating needs in fiscal years 2010 and 2009. The PCJPB's annual financial statements are publicly available.

(10) Self-Insurance

The SFMTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The SFMTA is fully self-insured for its general liability and auto liability, and public transportation bus and light rail liabilities, respectively. In addition, claims liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amount of payments, and other economic and social factors. The SFMTA is self-insured for workers' compensation claims. The respective liabilities as of June 30, 2010 and 2009 have been actuarially determined and include an estimate of incurred but not reported claims. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic social factors.

Changes in the balances of claims liabilities and workers' compensation liabilities for the years ended June 30, 2010 and 2009 are as follows:

		2010	2009
Accrued claims liabilities, beginning of fiscal year	\$	47,465	55,981
Incurred claims and changes in estimates		19,959	12,872
Claims payments		(20,503)	(21,388)
Accrued claims liabilities, end of fiscal year	\$	<u>46,921</u>	<u>47,465</u>
Accrued workers' compensation, beginning of fiscal year	\$	90,085	92,116
Incurred workers' compensation and changes in estimates		17,680	14,510
Workers' compensation payments		(15,768)	(16,541)
Accrued workers' compensation, end of fiscal year	\$	<u>91,997</u>	<u>90,085</u>

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.

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(11) Transactions with the City

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

The General Fund support from the City reflected in the accompanying financial statements includes a total revenue transfer of \$236.9 million and \$229.7 million in fiscal year 2010 and 2009, respectively.

(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, 2010 and 2009, the SFMTA had approved capital grants with unused balances amounting to \$580.5 million and \$468.5 million, respectively. Capital grants receivable as of June 30, 2010 and 2009 totaled \$36.0 million and \$13.9 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, 2010 and 2009, the SFMTA had various operating grants receivable of \$18.7 million and \$23.5 million, respectively. In fiscal years 2010 and 2009, the SFMTA's operating assistance also includes BART Americans with Disability Act (ADA) revenues of \$1.2 million and \$1.3 million, respectively, and other federal, state, and local grants of \$37.3 million and \$20.0 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 2010 and 2009, the SFCTA approved \$150 million and \$18.7 million, respectively, in new capital grants and the SFMTA received payments totaling \$12.4 million and \$17.6 million, respectively. As of June 30, 2010 and 2009, the SFMTA had \$6.9 million and \$0.6 million, respectively, in capital grants due from the SFCTA. Similarly, the SFMTA receives operating grants from SFCTA. During the fiscal years 2010 and 2009, SFCTA approved \$15.6 million and \$17.6 million, respectively, in new operating grants and SFMTA received payments totaling \$16.6 million and \$21 million, respectively. The SFMTA had \$0.9 million and \$2.0 million in operating grants due from the SFCTA as of June 30, 2010 and 2009, 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 \$36.7 million in fiscal year 2010 for different projects. Proposition 1B funds do not require matching funds. These funds must be obligated within three years. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects.

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During fiscal year 2010, \$25.6 million drawdowns were made from the funds for various eligible projects costs. In fiscal year 2009, the drawdowns totaled \$8.3 million.

On July 23, 2009, the Metropolitan Transportation Commission approved allocation of State Transit Assistance (STA) funds for the SFMTA transit projects in the amount of \$2.1 million. The cash was received in advance and recorded as deferred grant.

In addition, MTC approved SFMTA's request to advance STA money for the "Third Street Light project" for unspent open contracts that will cover costs for closeouts and claims. The cash received in advance amounting to \$3.4 million was recorded as deferred grant.

(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 2035. These agreements are accounted for as operating leases. Rent expense was \$12.1 million and \$12.07 million for the year ended June 30, 2010 and 2009, respectively.

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

Years ending June 30:	
2011	\$ 8,764
2012	9,047
2013	9,157
2014	9,173
2015	9,352
2016 – 2020	37,220
2021 – 2025	44,031
2026 – 2030	53,242
2031 – 2035	57,538
Total	\$ <u>237,524</u>

(c) Other Commitments

As of June 30, 2010, the SFMTA has outstanding commitments of approximately \$175.8 million with third parties for various capital projects. Grant funding is available for the majority of this amount. The SFMTA also has outstanding commitments of approximately \$31.8 million with third

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parties for noncapital expenditures. Various local funding sources are used to finance these expenditures.

The SFMTA is also committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. SFMRIC's board of directors has authorized SFMRIC to extend financial guarantees to the SFMTA for certain projects. The projects for which SFMRIC has guaranteed funding and the maximum amounts of such guarantees as of June 30, 2010, are as follows:

Wayside/Central Control System	\$	150
Islais Creek Storage Facility		186
Historic Streetcar Rehab		845
Total	\$	<u>1,181</u>

In addition, the SFMTA is involved in various lawsuits, claims, and disputes, which have arisen in SFMTA's routine conduct of business. In the opinion of management, the outcome of any litigation 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"). AGM was downgraded by S&P on October 25, 2010. The terms of the SILO documents require the City to replace AGM, as successor to FSA, as guarantor of debt payment undertaker if its ratings are downgraded below BBB+/Baa1 by Standard & Poor's 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

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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 Standard & Poor's and Moody's, respectively. AGM's current ratings satisfy this requirement. Although Moody's has a "negative" outlook with respect to AGM's rating (S&P's outlook is "stable"), it is not known whether or to what level downgrades, if any, may occur. Failure of Muni to replace AGM following a downgrade within a specified period of time could allow the investors, in effect, to issue a default notice to Muni. Because replacement of AGM in either of its roles as debt payment undertaker guarantor or surety may not be practicable, Muni could become liable to pay termination costs as provided in certain schedules of the SILO transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2010 after giving effect to the market value of the securities in the escrow accounts, would approximate \$97.1 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 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 years 2010. The deferred revenue amortized amounts were \$1.3 million and \$0.2 million in fiscal year 2009.

As of June 30, 2010, the outstanding payments to be made on the sublease through the end of the sublease term are \$44.3 million and \$49.3 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.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands, unless otherwise noted)

(15) Wellness Incentive Program

Effective July 1, 2002, the City established a pilot “wellness incentive program” (the Wellness Program) to promote workforce attendance. Under the Wellness Program, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment of a portion of accrued sick leave credits at the time of separation.

The amount of this payment shall equal to 2.5% of accrued sick leave credits at the time of separation times the number of whole years of continuous employment times an employee’s salary rate, exclusive of premiums or supplements, at the time of separation. Vested sick leave credits, as set forth under Civil Service Commission Rules, shall not be included in this computation.

The wellness incentive program terminated on June 30, 2010.

SUPPLEMENTAL SCHEDULES

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Supplemental Schedule – Schedule of Net Assets

June 30, 2010

(In thousands)

	<u>MUNI</u>	<u>SFMRIC</u>	<u>Muni/ SFMRIC Eliminations</u>	<u>Combined Muni and SFMRIC</u>	<u>Parking & Traffic</u>	<u>Parking Garages</u>	<u>SFMTA Eliminations</u>	<u>Total</u>
Assets:								
Current assets:								
Deposits and investments with City Treasury	\$ 205,587	—	—	205,587	27,275	—	—	232,862
Deposits and investments held outside City Treasury	100	—	—	100	2	3,247	—	3,349
Cash on hand	494	—	—	494	—	—	—	494
Receivables:								
Grants	43,372	—	—	43,372	3,471	—	—	46,843
Due from the San Francisco County Transportation Authority	7,004	—	—	7,004	900	—	—	7,904
Due from other City departments	43	—	(43)	—	—	—	—	—
Charges for services, net	3,694	—	—	3,694	1,008	147	—	4,849
Other, net	4,533	—	—	4,533	475	50	(1,649)	3,409
Total receivables	58,646	—	(43)	58,603	5,854	197	(1,649)	63,005
Inventories	51,671	—	—	51,671	—	—	—	51,671
Current deferred charges	2,433	—	—	2,433	—	256	—	2,689
Total current assets	318,931	—	(43)	318,888	33,131	3,700	(1,649)	354,070
Restricted assets:								
Deposits and investments with City Treasury:	6,461	2,832	—	9,293	—	—	—	9,293
Deposits and investments held outside City Treasury	—	—	—	—	682	10,613	—	11,295
Interest receivable	—	—	—	—	—	—	—	—
Other receivables	4,080	1	—	4,081	—	—	—	4,081
Total restricted assets	10,541	2,833	—	13,374	682	10,613	—	24,669
Noncurrent other, net	—	—	—	—	217	1,666	—	1,883
Capital assets	1,876,679	—	—	1,876,679	28,795	63,483	—	1,968,957
Total noncurrent assets	1,887,220	2,833	—	1,890,053	29,694	75,762	—	1,995,509
Total assets	\$ 2,206,151	2,833	(43)	2,208,941	62,825	79,462	(1,649)	2,349,579

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Supplemental Schedule – Schedule of Net Assets

June 30, 2010

(In thousands)

	<u>MUNI</u>	<u>SFMRIC</u>	<u>Muni/ SFMRIC Eliminations</u>	<u>Combined Muni and SFMRIC</u>	<u>Parking & Traffic</u>	<u>Parking Garages</u>	<u>SFMTA Eliminations</u>	<u>Total</u>
Liabilities:								
Current liabilities:								
Due to other funds	\$ 365	43	(43)	365	170	480	—	1,015
Accounts payable and accrued expenses	57,680	—	—	57,680	3,898	4,602	(1,649)	64,531
Accrued payroll	22,154	—	—	22,154	2,725	428	—	25,307
Accrued vacation and sick leave	14,818	—	—	14,818	2,055	—	—	16,873
Accrued workers' compensation	13,081	—	—	13,081	2,425	—	—	15,506
Accrued claims	18,736	—	—	18,736	1,613	—	—	20,349
Deferred tax, grant and subvention revenues	65,121	—	—	65,121	193	—	—	65,314
Deferred revenue and other deferred credits	6,809	—	—	6,809	4,142	262	—	11,213
Payable from restricted assets	4,405	2	—	4,407	—	—	—	4,407
Accrued interest receivable	—	—	—	—	75	44	—	119
Bonds, loans, and capital leases	—	—	—	—	1,615	1,645	—	3,260
Total current liabilities	<u>203,169</u>	<u>45</u>	<u>(43)</u>	<u>203,171</u>	<u>18,911</u>	<u>7,461</u>	<u>(1,649)</u>	<u>227,894</u>
Noncurrent liabilities:								
Accrued vacation and sick leave	10,094	—	—	10,094	1,363	—	—	11,457
Accrued workers' compensation	61,888	—	—	61,888	14,603	—	—	76,491
Accrued claims	23,446	—	—	23,446	3,126	—	—	26,572
Other postemployment benefits obligation	89,795	—	—	89,795	10,198	—	—	99,993
Deferred revenue and other deferred credits	26,786	—	—	26,786	—	57	—	26,843
Bonds, loans, and capital leases	—	—	—	—	19,866	26,982	—	46,848
Total noncurrent liabilities	<u>212,009</u>	<u>—</u>	<u>—</u>	<u>212,009</u>	<u>49,156</u>	<u>27,039</u>	<u>—</u>	<u>288,204</u>
Total liabilities	<u>\$ 415,178</u>	<u>45</u>	<u>(43)</u>	<u>415,180</u>	<u>68,067</u>	<u>34,500</u>	<u>(1,649)</u>	<u>516,098</u>
Net assets:								
Invested in capital assets, net of related debt	\$ 1,876,679	—	—	1,876,679	7,314	34,856	—	1,918,849
Restricted	6,136	2,788	43	8,967	682	10,613	—	20,262
Unrestricted	<u>(91,842)</u>	<u>—</u>	<u>(43)</u>	<u>(91,885)</u>	<u>(13,238)</u>	<u>(507)</u>	<u>—</u>	<u>(105,630)</u>
Total net assets	<u>\$ 1,790,973</u>	<u>2,788</u>	<u>—</u>	<u>1,793,761</u>	<u>(5,242)</u>	<u>44,962</u>	<u>—</u>	<u>1,833,481</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, 2010

(In thousands)

	MUNI	SFMRIC	Muni/ SFMRIC Eliminations	Combined Muni and SFMRIC	Parking & Traffic	Parking Garages	SFMTA Eliminations	Total
Operating revenues:								
Passenger fares	\$ 185,953	—	—	185,953	—	—	—	185,953
Advertising	13,489	—	—	13,489	—	—	—	13,489
Parking revenues	—	—	—	—	50,726	41,626	—	92,352
Charges for services	1,691	—	—	1,691	1,244	—	—	2,935
Rental income	1,081	—	—	1,081	1,802	2,854	—	5,737
Other	582	—	—	582	1,825	244	—	2,651
Total operating revenues	202,796	—	—	202,796	55,597	44,724	—	303,117
Operating expenses:								
Personal services	494,149	—	—	494,149	61,369	8,643	—	564,161
Contractual services	34,095	—	—	34,095	17,651	4,306	—	56,052
Materials and supplies	49,599	—	—	49,599	3,924	1,491	—	55,014
Depreciation and amortization	113,762	—	—	113,762	1,378	2,372	—	117,512
General and administrative	44,599	20	—	44,619	(2,872)	1,528	—	43,275
Services from other City departments	39,499	—	—	39,499	16,086	—	—	55,585
Other operating expenses	(63)	—	—	(63)	3,177	218	—	3,332
Total operating expenses	775,640	20	—	775,660	100,713	18,558	—	894,931
Operating loss	(572,844)	(20)	—	(572,864)	(45,116)	26,166	—	(591,814)
Nonoperating revenues (expenses and losses):								
Operating assistance:								
Federal	37,381	—	—	37,381	1,012	—	—	38,393
State and other grants	69,309	—	—	69,309	4,681	—	—	73,990
Interest income and investment income	4,138	12	—	4,150	755	22	—	4,927
Interest Expense	—	—	—	—	(1,017)	(1,552)	—	(2,569)
Licenses, permits and franchisee	—	—	—	—	8,242	—	—	8,242
Fines, forfeitures and penalties	—	—	—	—	89,290	—	—	89,290
Loss on disposal/retirement of capital assets	(685)	—	—	(685)	5	(452)	—	(1,132)
Other, net	3,491	(1,121)	—	2,370	10,542	(75)	—	12,837
Total nonoperating revenues, net	113,634	(1,109)	—	112,525	113,510	(2,057)	—	223,978
Loss before capital contribution and transfers	(459,210)	(1,129)	—	(460,339)	68,394	24,109	—	(367,836)
Capital contributions:								
Federal	85,759	—	—	85,759	2,279	—	—	88,038
State and others	44,883	—	—	44,883	—	—	—	44,883
Total capital contributions	130,642	—	—	130,642	2,279	—	—	132,921
Transfers in:								
City and County of San Francisco – General Fund	186,600	—	—	186,600	50,320	—	—	236,920
San Francisco County Transportation Authority	8,950	—	—	8,950	6,516	—	—	15,466
City and County of San Francisco – Other city departments	518	—	—	518	—	—	—	518
SFMTA operating transfers in	144,473	—	—	144,473	23,239	—	(167,712)	—
Total transfers in	340,541	—	—	340,541	80,075	—	(167,712)	252,904
Transfers out:								
City and County of San Francisco – Street Improvement	(5)	—	—	(5)	(8,983)	—	—	(8,988)
SFMTA operating transfers out	(2,500)	—	—	(2,500)	(140,613)	(24,599)	167,712	—
Other City departments	—	—	—	—	(4,378)	(480)	—	(4,858)
Net transfers	338,036	—	—	338,036	(73,899)	(25,079)	—	239,058
Change in net assets	9,468	(1,129)	—	8,339	(3,226)	(970)	—	4,143
Total net assets – beginning	1,781,505	3,917	—	1,785,422	(2,016)	45,932	—	1,829,338
Total net assets – ending	\$ 1,790,973	2,788	—	1,793,761	(5,242)	44,962	—	1,833,481

See accompanying independent auditors' report.

**COMBINED SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION**

Supplemental Schedule of Grants – Federal

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Capital grants:							
Sec 3 – Construct Islais Creek Facility	\$ 15,036	—	(1,211)	—	13,825	(13,660)	165
Sec 4 – Islais Creek ITS & AVL	7,326	—	(24)	—	7,302	(7,189)	113
Sec 3 – Third street Phase II Central Subway	22,187	9,900	(5,352)	—	26,735	(20,634)	6,101
Sec 3 – Fixed Guideway	123,644	37,331	(18,744)	—	142,231	(136,859)	5,372
Sec 4 – Glen Park Intermodal Facility	778	828	(93)	—	1,513	(1,220)	293
Sec 4 – Bus and Bus Facilities	980	—	—	—	980	(980)	—
Section 9 fiscal year 1998/99	380	—	(380)	—	—	—	—
Section 9 fiscal year 1999/00	5,374	—	(1,040)	—	4,334	(3,964)	370
Section 9 fiscal year 2000/01	2,068	—	(537)	—	1,531	(1,531)	—
Section 9 fiscal year 2001/02	5,845	—	(936)	—	4,909	(3,986)	923
Section 9 fiscal year 2002/03	1,069	—	(1,068)	—	1	(1)	—
Section 9 fiscal year 2003/04	14,391	—	(5,663)	—	8,728	(7,573)	1,155
Section 9 fiscal year 2004/05	13,757	—	(3,083)	—	10,674	(8,802)	1,872
Section 9 fiscal year 2005/06	13,789	—	(453)	—	13,336	(8,289)	5,047
Section 9 fiscal year 2006/07	14,713	—	(2,559)	—	12,154	(12,018)	136
Section 9 fiscal year 2007/08	33,898	—	(6,063)	—	27,835	(27,660)	175
Section 9 fiscal year 2008/09	—	27,069	(249)	—	26,820	(26,039)	781
Section 3 – Central Control Facility	1	—	—	—	1	(1)	—
Section 3 Third Street Metro East	8,476	—	(2,614)	—	5,862	(5,862)	—
Section 3 – PM Traps Fleet	3,088	—	—	—	3,088	(3,088)	—
Section 15 Radio Replacement	1,282	—	(1,282)	—	—	—	—
Section 26 Radio Replacement	207	—	(207)	—	—	—	—
Section 26 Alternative Fuel	288	—	(287)	—	1	(1)	—
Section 95 Central Subway 3rd LRP Phase II	6,025	—	(6,025)	—	—	—	—
Total capital grants	\$ 294,602	75,128	(57,870)	—	311,860	(289,357)	22,503
ARRA Grants							
Section 66 ARRA Flex fund -Preventive Maintenance	\$ —	4,535	(4,535)	—	—	—	—
Section 96 Infrastructure & Maintenance_PM operating in nature	18,000	18,322	(28,381)	32,246	40,187	(32,200)	7,987
Section 96 Infrastructure & Maintenance- Capital	49,246	—	(10,941)	(32,246)	6,059	(3,245)	2,814
Total pass-through grants	\$ 67,246	22,857	(43,857)	—	46,246	(35,445)	10,801
Operating grants:							
Paratransit	\$ 3,848	3,959	(3,847)	—	3,960	(1)	3,959
SRTP – CPT529 and 473 and 548	50	—	(41)	(2)	7	—	7
JARC Lifeline Routes 108 & 109	176	—	(176)	—	—	—	—
Lifeline Shopping Shuttle	—	260	—	—	260	(254)	6
Total operating grants	\$ 4,074	4,219	(4,064)	(2)	4,227	(255)	3,972

See accompanying independent auditors' report.

**COMBINED SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION**

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Capital grants:							
Prop IB – Third Street Light Rail	\$ 2,843	—	(171)	—	2,672	(2,672)	—
Prop IB – Auto Passenger Counter	1,682	—	(266)	—	1,416	(1,416)	—
Prop IB – Overhead Relocation	1,916	—	(322)	—	1,594	(1,594)	—
Prop IB – Farebox Rehabilitation	14,059	—	(7,189)	—	6,870	(6,870)	—
Prop IB – Geneva Yard	7,500	—	(4,225)	—	3,275	(3,275)	—
Prop IB – Metro East LRV Facility	9,656	—	(4,941)	—	4,715	(4,715)	—
Prop IB – Operator Restrooms	2,944	—	(207)	—	2,737	(2,737)	—
Prop IB – Wayside Fare Collection	1,000	—	(45)	—	955	(955)	—
Prop IB – Homeland Security	7,034	—	(1)	—	7,033	(7,033)	—
Prop IB – Central Subway	—	30,000	(6,063)	—	23,937	(23,741)	196
Prop IB – Central Control and Communication	—	400	—	—	400	(400)	—
Prop IB – Central Control and Communication	—	1,300	(29)	—	1,271	(1,271)	—
Total capital grants	<u>\$ 48,634</u>	<u>31,700</u>	<u>(23,459)</u>	<u>—</u>	<u>56,875</u>	<u>(56,679)</u>	<u>196</u>
Operating in nature grants:							
Diesil Bus Purchase	\$ 63	—	(10)	—	53	(53)	—
Total operating grants	<u>\$ 63</u>	<u>—</u>	<u>(10)</u>	<u>—</u>	<u>53</u>	<u>(53)</u>	<u>—</u>

See accompanying independent auditors' report.

**COMBINED SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION**

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Capital grants:							
Bridge toll:							
Motor Coach Replacement	\$ (1,287)	—	(593)	2,385	505	(486)	19
Automatic Vehicle Location	6,135	—	(3,752)	(2,382)	1	(1)	—
E-line Embarcadero Streetcar	2,729	—	—	(608)	2,121	(2,121)	—
Match to Capital Grants	6,420	4,172	(984)	(506)	9,102	(8,769)	333
Total capital grants	<u>\$ 13,997</u>	<u>4,172</u>	<u>(5,329)</u>	<u>(1,111)</u>	<u>11,729</u>	<u>(11,377)</u>	<u>352</u>
State Transit Assistance							
Third Street Light Rail	<u>\$ 3,622</u>	<u>—</u>	<u>(186)</u>		<u>3,436</u>	<u>(3,436)</u>	<u>—</u>
Operating grants:							
AB1107 Sales Tax	\$ 2,368	27,767	(27,628)	—	2,507	—	2,507
State Transit Assistance	12,171	382	(10,279)	(794)	1,480	—	1,480
Transportation Development Act	—	29,647	(29,647)	—	—	—	—
Owl Operations	31	188	(219)	—	—	—	—
Third Street Start Up Operations	417	2,500	(2,917)	—	—	—	—
Translink Regional Fare Study	—	—	—	—	—	—	—
Translink Project	33	—	(19)	—	14	(14)	—
Lifeline Route #108 Treasure Island	—	262	(262)	—	—	—	—
Lifeline Route #29 Sunset	—	294	(294)	—	—	—	—
Lifeline – Shopping Shuttle	—	1,560	(6)	(1,550)	4	(4)	—
Total operating grants	<u>\$ 15,020</u>	<u>62,600</u>	<u>(71,271)</u>	<u>(2,344)</u>	<u>4,005</u>	<u>(18)</u>	<u>3,987</u>

See accompanying independent auditors' report.

**COMBINED SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION**

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Capital grants:							
3rd Light Rail-Preliminary Design	\$ 5,834	—	(77)	—	5,757	(5,757)	—
Accessible Vans	21	—	(16)	—	5	—	5
Cable Car Infrastructure	1,846	3,160	—	—	5,006	(4,970)	36
Central Subway	8,228	36,419	(405)	—	44,242	(42,276)	1,966
Diesel Bus Purchase	1,236	—	(342)	—	894	(789)	105
Escalator Replacement Study	147	1,048	(45)	—	1,150	(1,139)	11
Facilities Rehabilitation and Improvement	2,550	809	(415)	(648)	2,296	(2,107)	189
Financial Capacity Study	240	—	—	—	240	(240)	—
Geneva Building Demolition	532	—	(139)	(4)	389	(246)	143
Gillig Motor Coaches	30	—	—	(30)	—	—	—
Hybrid Electric Buses	6,586	—	(1,007)	(1,600)	3,979	(2,622)	1,357
Islais Creek Wood	—	27,935	—	—	27,935	(27,935)	—
Muni Rail Replacement CPT579	415	5,390	(343)	—	5,462	(5,440)	22
Overhead Rehab Program	6,064	2,477	(3,189)	—	5,352	(5,342)	10
PCC Overhaul	4,117	—	(208)	(262)	3,647	(3,245)	402
Procurement 56 - 50 Hybrids	13,057	—	(2,257)	(3,051)	7,749	(6,445)	1,304
Rail Replacement/Maintenance Equipment	3,423	2,210	(1,462)	—	4,171	(3,612)	559
Re-power Standard Motor Coaches CPT598	—	245	—	—	245	(245)	—
Trolley Coach Rebuild	1,023	—	(112)	—	911	(883)	28
Woods Division Renovation	709	—	425	(1,111)	23	(23)	—
Wood/Potrero Roof Replacement	452	—	—	(450)	2	(2)	—
Transit Preferential Street CPT460	23	—	—	—	23	(23)	—
Auto Vehicle Location & ETI Bus Lifts	85	—	—	(23)	62	(62)	—
Woods Lifts-Heavy Maintenance Shop CPT629	—	1,092	(430)	—	662	(649)	13
Central Control & Comm CPT630	—	200	—	—	200	(200)	—
Duboce Ave. Pedestrian Improv CPT634	—	173	—	—	173	(173)	—
Van Ness BRT Env Review CPT620	140	—	—	—	140	(140)	—
Drivecam Project CPT623	1,998	—	(974)	—	1,024	(849)	175
LRV Collision Repairs CPT626	2,600	—	(45)	—	2,555	(2,406)	149
Capital Grant Staffing	—	—	—	3	3	—	3
Radio Communications System	2,450	69,175	(1,406)	—	70,219	(69,725)	494
Total capital grants	\$ 63,806	150,333	(12,447)	(7,176)	194,516	(187,545)	6,971

**COMBINED SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION**

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Operating grants:							
Graffiti preventions	\$ 3	—	—	(3)	—	—	—
Capital grant staffing	277	270	(267)	—	280	(280)	—
Emergency pavement repairs	—	—	—	—	—	—	—
Paratransit contract	—	9,670	(8,473)	—	1,197	(1,197)	—
CTIDF & ATMF Project	—	33	—	—	33	—	33
Trolley bus lifts operations and maintenance	759	—	(207)	—	552	(552)	—
Total operating grants	\$ <u>1,039</u>	<u>9,973</u>	<u>(8,947)</u>	<u>(3)</u>	<u>2,062</u>	<u>(2,029)</u>	<u>33</u>

See accompanying independent auditors' report.

**COMBINED SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION**

Supplemental Schedule of Grants – Others

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Capital grants:							
Bay Area Air Quality Management District							
Bike Rack Retrofit	\$ 12	—	—	(10)	2	(2)	—
PM Traps Fleet	—	—	—	—	—	—	—
CA Air Resources Board -Backhoe Low Emission	—	—	—	—	—	—	—
Private Foundation – Photo Restoration	—	—	—	—	—	—	—
Homeland Security:							
CA Emergency Mgmt Agency- TSGP CPT586 & 587	2	—	—	(2)	—	—	—
CA Emergency Mgmt Agency- Rail CPT618 & 619	2,711	—	(1)	—	2,710	(1,519)	1,191
CA Emergency Mgmt Agency- CPT624 & 625	5,813	—	—	—	5,813	(5,813)	—
US Dept of Homeland Security	—	7,997	—	—	7,997	(7,654)	343
Total capital grants	<u>\$ 8,538</u>	<u>7,997</u>	<u>(1)</u>	<u>(12)</u>	<u>16,522</u>	<u>(14,988)</u>	<u>1,534</u>
Operating in nature grants:							
Translink Project	\$ 15	(15)	—	—	—	—	—
State Video Surveillance Project	23	—	—	—	23	(23)	—
TS K 9 Project	131	121	(128)	—	124	(97)	27
Total operating grants	<u>\$ 169</u>	<u>106</u>	<u>(128)</u>	<u>—</u>	<u>147</u>	<u>(120)</u>	<u>27</u>

See accompanying independent auditors' report.

PARKING AND TRAFFIC

Supplemental Schedule of Grants – Federal

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Capital Projects:							
Federal							
SF Park Project 2009	14,400	1,800	(604)	—	15,596	(13,921)	1,675
Total capital projects grants	\$ 14,400	1,800	(604)	—	15,596	(13,921)	1,675
Operating in nature grants:							
Dogle Drive Motorist Information System	\$ 177	—	—	—	177	—	177
Tea Shared Lane Marking Project	318	—	(75)	—	243	(172)	71
Regional Signal Timing Program	1	—	—	(1)	—	—	—
Tea Ped Safety Education RPSTPLE-632(007)	183	—	—	—	183	(61)	122
School Area: Bicycle, Pedestrian & Traffic Safety	256	—	(21)	(235)	—	—	—
Inner Sunset Traffic Calming & Transit Enhancement	95	—	(26)	—	69	(69)	—
Inner Sunset Traffic Calming & Transit Enhancement	84	—	(10)	—	74	(73)	1
Tenderloin Pedestrian Improvements	337	—	(24)	—	313	(313)	—
Golden Gate Park Ped Improvements	100	—	(8)	—	92	(92)	—
Var Bike Network Improvements	85	—	(16)	—	69	(62)	7
Eastern Neighborhoods	750	—	—	—	750	(640)	110
3rd Street REST	50	—	(45)	(5)	—	—	—
Chinatown Safe Routes to Schools	129	—	(1)	—	128	(126)	2
Van Ness Corridor Improvement	3,990	—	(36)	—	3,954	(3,606)	348
Fulton Curb Ramps	—	14	(2)	—	12	(9)	3
HSIP Emergency Vehicle Signal Project	—	764	—	—	764	(693)	71
Bayshore & Paul Signal Upgrade Design	—	41	—	—	41	(36)	5
Parking Guidance Project	—	3,600	—	—	3,600	(3,600)	—
Jefferson Safe Routes to School-Planning	—	122	—	—	122	(122)	—
Sub Total - 5N CPF FED	\$ 6,555	4,541	(264)	(241)	10,591	(9,674)	917
ARRA:							
Inner Sunset Traffic Calming-Construction Phase		343	(5)		338	(142)	196
Various Locations Ped Signal Upgrade		300			300	(230)	70
Sub Total - 5N CPF ARA	—	643	(5)	—	638	(372)	266
Total grants operating in nature	\$ 6,555	5,184	(269)	(241)	11,229	(10,046)	1,183

See accompanying independent auditors' report.

PARKING AND TRAFFIC

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Operating in nature grants:							
Dogle Dr Motorist Infor System	\$ 23	—	—	—	23	—	23
Leonard Flynn Safe Routes to School	27	—	—	(27)	—	—	—
Randolph/Farralones/Orizaba Transit Access Ped Safety	—	85	(18)	—	67	(67)	—
Tea Shared Lane Marking Project	42	—	(11)	—	31	(22)	9
SF Community & Monroe Elec School- Safety Route	207	—	(49)	—	158	(158)	—
Buena Vista Safe Routes to School	423	—	(110)	—	313	(313)	—
Traffic Calming & Transit Enhancement	12	—	(3)	—	9	(6)	3
Marshall Safe Routes to School	256	—	(140)	—	116	(116)	—
Addison & Dighy Traffic Circle – Design	11	—	(4)	—	7	(7)	—
Addison & Dighy Traffic Circle	180	—	(124)	—	56	(56)	—
Bayshore/Silver/San Bruno Signals	14	—	(14)	—	—	—	—
Van Ness Corridor Improvement	5,110	—	(23)	—	5,087	(4,748)	339
Claredon Safe Route to School	175	—	(8)	—	167	(160)	7
Persia Triangle Improvements	—	127	(2)	—	125	(125)	—
Total operating in nature grants	\$ 6,480	212	(506)	(27)	6,159	(5,778)	381

See accompanying independent auditors' report.

PARKING AND TRAFFIC

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Operating in nature grants:							
TDA:							
TDA 05/06 Bike Facilities	\$ —	—	—	—	—	—	—
TDA 05/06 Bike Racks	—	—	—	—	—	—	—
TDA 05/06 Bicycle Safety	—	—	—	—	—	—	—
TDA 06/07 Bike Facilities	164	—	(144)	(20)	—	—	—
TDA 06/07 Bicycle Safety	14	—	(14)	—	—	—	—
TDA 06/07 Bicycle Parking	96	—	(14)	(82)	—	—	—
TDA 07/08 Bicycle Route Engineering	321	—	(313)	—	8	—	8
TDA 07/08 Bicycle Safety Engineering	38	—	(38)	—	—	—	—
Bicycle Parking Projects	—	200	—	—	200	(135)	65
Bicycle Safety Education Outreach	—	100	—	—	100	(100)	—
Bridge Tolls (RM2):							
Improvement Bicycle Access to	33	—	(31)	—	2	(1)	1
Market St Safety Zone	354	—	(63)	—	291	(281)	10
Mission/Geneva Ped Improvements-Design	140	—	(64)	—	76	(15)	61
Mission/Geneva Ped Improvements-Const	800	1	—	—	801	(801)	—
24th & Mission Ped Improvement-Design	93	—	(15)	—	78	(73)	5
24H & Mission Ped Improvement-Const	357	—	—	—	357	(357)	—
Total operating in nature grants	\$ 2,410	301	(696)	(102)	1,913	(1,763)	150

See accompanying independent auditors' report.

PARKING AND TRAFFIC

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Operating in nature grants:							
Bike Program Projects	\$ 1,239	352	(405)	—	1,186	(1,026)	160
Pedestrian Safety Program Projects	2,151	1,589	(1,375)	—	2,365	(2,331)	34
Traffic Calming Program Projects	1,382	1,015	(773)	—	1,624	(1,497)	127
Traffic Signal/Traffic Sign Projects	5,445	2,456	(4,127)	—	3,774	(3,437)	337
Transit Study & Street Improvement Projects	1,126	—	(663)	—	463	(448)	15
Total operating in nature grants	<u>\$ 11,343</u>	<u>5,412</u>	<u>(7,343)</u>	<u>—</u>	<u>9,412</u>	<u>(8,739)</u>	<u>673</u>
Pass-thru grants operating in nature:							
Bike Program Projects	\$ 739	86	(60)	—	765	(729)	36
Traffic Calming Projects	187	—	(61)	—	126	(126)	—
Traffic Signal Projects	395	—	(177)	—	218	(123)	95
Bike Program Projects	115	—	(2)	—	113	(103)	10
Transit Study & Street Improvement Projects	—	120	(9)	—	111	(25)	86
Total pass-thru grants operating in nature	<u>\$ 1,436</u>	<u>206</u>	<u>(309)</u>	<u>—</u>	<u>1,333</u>	<u>(1,106)</u>	<u>227</u>

See accompanying independent auditors' report.

PARKING AND TRAFFIC

Supplemental Schedule of Grants – Others

Year ended June 30, 2010

(In thousands)

	Authorized grants as of July 1, 2009	New grants approved/ spending commences	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2010	Amounts not expended as of June 30, 2010	Grants receivable as of June 30, 2010
Operating in nature grants:							
Folsom & Illions Bike Lanes	\$ 90	—	—	—	90	(34)	56
25th Avenue Road Diet	12	—	(12)	—	—	—	—
Alemaný Blvd - Bike Lane	130	—	—	(38)	92	(72)	20
Broadway Road Diet and Bike Lanes	25	—	—	(25)	—	—	—
7th Ave Traffic Calming	34	—	(27)	—	7	(2)	5
North Point St Bicycle Lanes, Between Embarcadero	93	—	—	—	93	(93)	—
Total operating in nature grants	<u>\$ 384</u>	<u>—</u>	<u>(39)</u>	<u>(63)</u>	<u>282</u>	<u>(201)</u>	<u>81</u>

See accompanying independent auditors' report.



KPMG LLP
Suite 1400
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San Francisco, CA 94105

**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, 2010, and have issued our report thereon dated December 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described in the accompanying schedule of findings and responses (Appendix A). A significant deficiency is a deficiency, or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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*.

SFMTA's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit SFMTA's responses and, accordingly, we express no opinion on them.

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

December 17, 2010

2010-01 Lack of Controls over Inventory Count Process

Criteria

A control deficiency 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 misstatements on a timely basis.

Condition

Significant deficiencies have been found in the inventory count process in fiscal years 2008 and 2009.

Although procedures appear to have improved in the current year, we found another error in the execution of counting procedures in the current year. In performing an inventory count at the Burke Warehouse on May 1, 2010, the count of stock code 020-04-0039 (Chamber Assembly) was erroneously recorded by the warehouse personnel to be 26 items on hand, when the warehouse in fact had 20 items at the point of count. Although perpetual records were not available to the individuals performing the count, the erroneous count exactly equaled the perpetual records, thus not triggering additional investigation as to the reason for the loss of 6 units.

Cause

A pallet was assumed to contain 24 items by the counter; however, only 18 items were on the pallet.

Recommendation

In performing the inventory count in warehouses, the warehouse management should more clearly communicate the instructions to the warehouse personnel performing the count.

Management Response

SFMTA acknowledges that a parts storekeeper made a counting error in performing an inventory count of stock code 020-04-0039 at the Burke Warehouse on May 1, 2010. The parts storekeeper counted and recorded a count of 26 units. Once the error became apparent, an analysis of the situation revealed that the item counted was not easily accessible. To prevent future similar occurrences, items of this nature, i.e. inaccessible or stored on pallets with multiple shrink wrapped enclosed boxes, will be removed from the bin by pallet jack; and the item unwrapped before counting. This change in procedure will be communicated to staff in writing by December 23, 2010; and will be included in the Inventory Count Instructions and training materials.

Although a counting error did occur, a finding of one count error in a universe of 2,858 warehouse locations (representing a .035% error rate, e.g. less than 1%) is not indicative of inadequate controls over the inventory count process at the Burke warehouse, as stated in the finding.

2010-02 Lack of Controls over Compliance with the State revenue distribution guidelines

Criteria

A control deficiency 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 misstatements on a timely basis.

Condition

MTA recorded \$10.1 million at year end to accrue for the portion of the equipment tag violations revenue that was due to the State in prior and current years but that was not recorded nor remitted to the State when required.

MTA is required to distribute to the State 50% of all qualified equipment/tag violations. From July 2004 through June 2010 a total of \$10.1 million was not distributed, \$7.7 million of which related to prior years. Additionally, SFMTA is required to distribute to the State parking fines and surcharges collected pursuant to the Government Code Section 70372 (b). From January 2010 through June 2010 a total of \$3.1 million was not remitted in a timely manner.

Cause

Adequate controls over review of calculations of revenue due to the State were not in place in the current nor prior years.

Recommendation

MTA should implement adequate controls over review of calculation and distribution of revenue due to the State.

Management Response

This practice of not distributing the appropriate amounts of equipment tag citations to the State since 2004 was brought to the attention of SFMTA as a result of the State audit. While \$10.1 million has been set aside to address any amounts due for the period 2004 through 2010, SFMTA is still in the process of reviewing the State audit findings to determine the actual amounts due. As of July 1, 2010, the SFMTA has been remitting the portion of State violation amounts collected pursuant to the Government Code Section 70372 (b) as required on a monthly basis.