



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

Financial Statements
and Supplemental Schedules

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

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KPMG LLP
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

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

We have audited the accompanying basic financial statements of the San Francisco Municipal Railway (MUNI) and the San Francisco Municipal Railway Improvement Corporation (SFMRIC), departments of the City and County of San Francisco, California (the City) and the Municipal Transportation Agency (MTA), as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the management of MUNI and SFMRIC. 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. Our audit included 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 the MUNI and SFMRIC internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 accompanying financial statements present only MUNI and SFMRIC and do not purport to, and do not, present fairly their financial position as of June 30, 2005 and 2004, and the changes in their financial position and their cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MUNI and SFMRIC as of June 30, 2005 and 2004, and their changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2005 on our consideration of MUNI's and SFMRIC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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 audits.



The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of MUNI and SFMRIC. The accompanying schedules of grants are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

KPMG LLP

October 21, 2005

**SAN FRANCISCO MUNICIPAL RAILWAY AND
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Management's Discussion and Analysis

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(Dollars in thousands, unless otherwise noted)

As management of the San Francisco Municipal Railway (MUNI) and the San Francisco Municipal Railway Improvement Corporation (SFMRIC), we offer readers of MUNI and SFMRIC's financial statements this narrative overview and analysis of the financial activities of MUNI and SFMRIC for the fiscal years ended June 30, 2005 and 2004. 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 assets of MUNI and SFMRIC exceeded their liabilities at the close of the most recent fiscal year by \$1,720,510.
- MUNI and SFMRIC's total net assets increased by \$19,958. This increase is due primarily to an increase in capital assets.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MUNI and SFMRIC's financial statements, which can be found on pages 13 through 17 of this report. MUNI is an enterprise fund of 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. As explained in note 2(a) to the financial statements (page 18), MUNI applies Governmental Accounting Standards Board (GASB) Statements. MUNI and SFMRIC are an integral part of the City and these financial statements are included in the City's Comprehensive Annual Financial Report. More information regarding MUNI and SFMRIC's organization and the basis of presentation is contained in notes 1 and 2(a). Only the accounts of MUNI and SFMRIC are included in these financial statements.

The statements of net assets (found on pages 13 and 14) present information on all of MUNI and SFMRIC'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 MUNI and SFMRIC. Comparative information of MUNI and SFMRIC's financial position is presented as of June 30, 2005 and 2004.

The statements of revenues, expenses, and changes in net assets (found on page 15) present information showing how MUNI and SFMRIC's net assets changed during the most recent two fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

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The statements of cash flows (found on pages 16 and 17) present information about the cash receipts and payments of MUNI and SFMRIC during the most recent two fiscal years. These statements show the effects on MUNI and SFMRIC's cash balances of cash flows from operating, noncapital financing, capital and related financing, and investing activities. When used with related disclosures and information in the other financial statements, the information in the statements of cash flows helps readers assess MUNI and SFMRIC's ability to generate net cash flows, their ability to meet their obligations as they come due, and their 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 18 through 33 of this report.

Other Information

The supplemental schedules found on pages 34 through 42 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 MUNI and SFMRIC, assets exceeded liabilities by \$1,720,510 at the close of the most recent fiscal year.

Summary of Net Assets

June 30, 2005, 2004 and 2003

(In thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Total current assets	\$ 151,742	158,873	154,207
Total restricted assets	41,477	47,425	56,208
Noncurrent deferred charges	—	4,000	4,000
Capital assets	<u>1,778,547</u>	<u>1,745,399</u>	<u>1,652,658</u>
Total assets	<u>1,971,766</u>	<u>1,955,697</u>	<u>1,867,073</u>
Liabilities:			
Total current liabilities	98,068	103,665	109,142
Total noncurrent liabilities	<u>153,188</u>	<u>151,480</u>	<u>137,292</u>
Total liabilities	<u>251,256</u>	<u>255,145</u>	<u>246,434</u>
Net assets:			
Invested in capital assets, net of related debt	1,778,547	1,745,231	1,652,327
Restricted net assets	40,616	46,484	55,304
Unrestricted net assets	<u>(98,653)</u>	<u>(91,163)</u>	<u>(86,992)</u>
Total net assets	<u>\$ 1,720,510</u>	<u>1,700,552</u>	<u>1,620,639</u>

Fiscal Year 2005

MUNI and SFMRIC's net assets increased by \$19,958 compared to the prior year, due primarily to an increase in total capital assets, less accumulated depreciation and amortization. Specifically, there were increases in construction in progress for new projects and construction work on Third Street Light Rail and capitalization of infrastructure investments.

Almost all of MUNI's net assets (\$1,778,547 as of June 30, 2005) reflect its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, and construction-in-progress). The value of these assets of \$2,405,234 is offset by accumulated depreciation and amortization of \$626,687. More information can be found in note 5 on pages 23 through 25.

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MUNI and SFMRIC use these assets to provide services. The investment is shown reported net of related debt. As of June 30, 2005, there was no related debt outstanding. In fiscal year 2004, the related debt amounted to \$168. The related debt outstanding in fiscal year 2003 amounted to \$331.

The remainder of MUNI's net assets is composed of restricted net assets including deposits and investments with the City and receivables and unrestricted net assets in a deficit position.

Fiscal Year 2004

MUNI and SFMRIC's net assets increased by \$79,913 compared to the prior year, due primarily to an increase in total capital assets, less accumulated depreciation and amortization. Specifically, there were increases in equipment due to the acquisition of trolley coaches and light rail vehicles, and capitalization of infrastructure investments.

Almost all of MUNI's net assets (\$1,745,231 as of June 30, 2004) reflect its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, and construction-in-progress). The value of these assets of \$2,290,243 is offset by accumulated depreciation and amortization of \$544,844. More information can be found in note 5 on pages 23 through 25.

MUNI and SFMRIC use these assets to provide services. The investment is shown reported net of related debt. As of June 30, 2004, the related debt amounted to \$168. In fiscal year 2003, the related debt amounted to \$331.

The remainder of MUNI's net assets is composed of restricted net assets including deposits and investments with the City and receivables and unrestricted net assets in a deficit position.

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	<u>2005</u>	<u>2004</u> (In thousands)	<u>2003</u>
Revenues:			
Total operating revenues	\$ 127,431	127,317	109,490
Total nonoperating revenues, net	229,652	221,113	210,060
Capital contributions:			
Federal	42,240	60,434	80,454
State and others	81,747	107,481	79,818
Total capital contributions	123,987	167,915	160,272
Total operating transfers in	117,953	116,689	116,984
Total revenues and transfers in	599,023	633,034	596,806
Expenses:			
Total operating expenses	579,065	553,121	529,307
Change in net assets	19,958	79,913	67,499
Total net assets – beginning	1,700,552	1,620,639	1,553,140
Total net assets – ending	\$ 1,720,510	1,700,552	1,620,639

Fiscal Year 2005

Total revenues for the year ended June 30, 2005 were \$599,023. This is \$34,011 lower than from the previous year, due primarily to the decrease in capital contributions.

Operating revenues slightly increased by \$114, or 0.09%. There was a \$5,961 increase in transit passenger fares revenue as a result of the implementation of fare increase initiative that went into effect in fiscal year 2004 and \$1,830 net increases in other operating revenues, mostly attributable from Electric Transit Inc. (ETI) non-cash transaction receipt of spare parts inventory as a result of a claim settlement. However, these increases were offset by a decrease in advertising revenue amounting to \$7,679. A new advertising contract went into effect in 2005 with negotiated provision for a guarantee payment of 75% lower than the previous contract. Nonoperating revenues increased compared to the previous year by \$8,539 or 3.86%. This category includes operating support received from other sources, primarily federal and state operating grants and parking-related revenues, such as parking fines, taxes, garages, and meters. Contributions from Federal, state and local capital grants increased to support projects that were operating in nature including Transbay Terminal pass-through grants. Capital contributions decreased by \$43,928 or 26.16%. Capital contributions consist principally of funds received or receivable from federal, state and local grant agencies that provide funding for many of MUNI's capital projects.

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There were less capitalized expenditures incurred and billable to the funding agencies than prior year. Net transfers increased by \$1,264 or 1.08% in 2005 compared to fiscal year 2004, consist primarily of an additional city's General Fund subsidy allocated from City general fund due to increase revenue from real estate market boom.

Total expenses for the year ended June 30, 2005 were \$579,065. This is higher by \$25,944 than the previous year due to increases in contractual services, materials and supplies, general and administrative expenses, and in depreciation expense by \$4,841 for newly acquired rolling stock. General and administrative expenses net increase is attributable partly to general liability claims reserves, which increased by approximately \$11,790. Contractual services are higher than prior year due an increase of Transbay Terminal project recoverable cost incurred in 2005. Fuel costs increased by \$2,500 in fiscal year 2005 due to a higher unit price of diesel as compared to prior year.

Fiscal Year 2004

Total revenues for the year ended June 30, 2004 were \$633,034. This is \$36,228 higher than from the previous year, due primarily to an increase in operating revenues and nonoperating revenues.

Operating revenues increased by \$17,827, or 16%, which was primarily due to increase in transit passenger fares revenue as a result of the implementation of fare increase initiative that went into effect in fiscal year 2004. Nonoperating revenues slightly increased compared to the previous year by \$11,053 or 5%. This category includes operating support received from other sources, primarily federal and state operating grants and parking-related revenues, such as parking fines, taxes, garages, and meters. Parking fines and garage revenues increased in fiscal year 2004. The increase is attributable to rate and fees increases approved by the Board that went into effect during fiscal year 2004. Capital contributions increased by \$7,643, or 5%. Capital contributions consist principally of funds received or receivable from federal, state and local grant agencies that provide funding for many of MUNI's capital projects. Net transfers which consist primarily in subsidy from the city's General Fund remained almost at the same level in 2004 compared to fiscal year 2003.

Total expenses for the year ended June 30, 2004 were \$553,121. This is higher by \$23,814 than the previous year due to increases in general and administrative expenses and depreciation for newly acquired rolling stock. General and administrative expenses increased by \$13,950. The increase is attributable partly to general liability claims reserves, which increased by approximately \$8,000. In addition, the increase included payment of \$8,600 to CalTrain Joint Powers Board (JPB) as a local subsidy. In prior years, funding for JPB costs was provided by the City's General Fund, and fiscal year 2004 represents the first year in which this obligation was included in MUNI's budget.

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Capital Assets and Debt Administration

Capital Assets. MUNI and SFMRIC's investment in capital assets amounts to \$1,778,547 net of accumulated depreciation at June 30, 2005. This investment includes land, building structures and improvements, equipment, infrastructure, and construction-in-progress. The capital assets net increase is \$33,148 or 1.90%, compared to the previous year. This increase is attributed to continued construction work for new and existing projects as well as capitalization of building structures and infrastructure investments.

	<u>Balance, June 30, 2005</u>	<u>Balance, June 30, 2004</u>	<u>Balance, June 30, 2003</u>
Capital assets not being depreciated:			
Land	\$ 18,481	18,481	18,481
Construction-in-progress	379,203	282,779	190,157
Total capital assets not being depreciated	<u>397,684</u>	<u>301,260</u>	<u>208,638</u>
Capital assets being depreciated:			
Building structures and improvements	244,272	238,520	237,039
Equipment	1,046,554	1,046,790	1,002,036
Infrastructure	716,725	703,673	693,029
Total capital assets being depreciated	<u>2,007,551</u>	<u>1,988,983</u>	<u>1,932,104</u>
Less accumulated depreciation for:			
Building structures and improvements	99,398	93,555	87,442
Equipment	295,607	242,287	214,108
Infrastructure	231,683	209,002	186,534
Total accumulated depreciation	<u>626,688</u>	<u>544,844</u>	<u>488,084</u>
Total capital assets being depreciated, net	<u>1,380,863</u>	<u>1,444,139</u>	<u>1,444,020</u>
Total capital assets, net	<u>\$ 1,778,547</u>	<u>1,745,399</u>	<u>1,652,658</u>

The Third Street Light Rail project, a major expansion of the Muni Metro system, will link communities in the City's southeast neighborhoods to south of Market Street, Mission Bay, downtown, and the rest of the Metro system. Construction of Phase I, which links the 4th Street and King Street areas to the Bayshore Caltrain station, continued in fiscal year 2005 and is scheduled to be complete in the spring of 2006. Testing and training will be performed through the following summer, with revenue service slated to begin in Fall of 2006. Phase II of the Third Street project, the Central Subway, will provide an underground transit link between 4th Street and King

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Street north to Union Square and Chinatown. In fiscal year 2005, conceptual engineering continued on the Central Subway. Input from numerous public meetings demonstrated significant support to shift the alignment from 3rd Street over to 4th Street. The MTA Board approved this revision to the alignment and selected 4th Street as the locally preferred alternative.

Other capital asset events during the fiscal year 2005 included:

- Acquisition of 11 New Jersey PCC Historic Streetcars.
- Completion and capitalization of the Signal Preemption Project amounting to \$1.9 million.
- Completion and capitalization of the Overhead Reconstruction Project in the amount of \$11.2 million for Line 6 and Line 7.
- Completion and capitalization of Flynn Facility lift modification project.

Significant capital asset events during the fiscal year 2004 included:

- Completion and capitalization of MUNI Surface Street Improvement project on 15th Street and Taraval and K-line overhead rail construction.
- Acquisition of additional 2 BREDÁ Light Rail vehicles.
- Acquisition of additional 108 trolley coaches.
- Completion and capitalization of Potrero and Presidio Yard Feeder upgrade project.
- Completion and capitalization of the Utah and 24th Street shop renovation project.

Leveraged Lease-Leaseback of Breda Vehicles

In April 2002, MUNI entered into the leveraged lease-leaseback transaction over 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 throughout the life of the sublease.

MUNI received an aggregate of \$388.2 million from the equity investors in full prepayment of the head lease. MUNI deposited \$352.7 million of this lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" 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 and the amount paid to the escrows of \$352.7 million. The deferred revenue amortized in fiscal year 2005 amounted to \$1.3 million.

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In September 2003, after obtaining final approval from the Municipal Transportation Agency board of directors and the City and County's board of supervisors, MUNI entered into a second leveraged lease-leaseback transaction over 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 throughout the life of the sublease.

MUNI received an aggregate of \$72.6 million from the equity investors in full prepayment of the head lease. MUNI deposited approximately \$67.5 million of this head lease payment into two escrows. As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2004 of \$4.4 million for the difference between the amount received of \$72.6 million and the amount paid to the escrows of \$67.5 million (minus \$0.7 million for other transaction expenses). The deferred revenue amortized in fiscal year 2005 amounted to \$168.

Long-Term Debt

SFMRIC is authorized to issue debt to fund each of its programs, but no debt or bonds are outstanding. MUNI's Transit Improvement Program (TIP) is also authorized to issue bonds, but no bonds are outstanding as of June 30, 2005 and 2004.

Economic Factors and Next Year's Budget

The impact of the economic recession that began in April 2000 continues to affect several of the revenue sources within the MTA. In fiscal year 2002, the MTA's revenue sources began to decline as they are sensitive to economic conditions such as employment and tourism levels. At the same time, the fixed costs associated with MTA's core services have continued to rise, such as wage rates, health benefits costs, and fuel costs. As a result of these factors, the MTA and the City and County of San Francisco implemented measures to balance the fiscal year 2006 budget by allowing a one-time only increase to the general fund contribution; increasing fares and parking fines/rates/fees; and implementing efficiencies and adjustments to the delivery of services.

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Requests for Information

This report is designed to provide a general overview of MUNI and SFMRIC'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 the accounting and reporting standards known as "accounting principles generally accepted in the United States of America." Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to Chief Financial Officer, MTA Finance and Administration, 875 Stevenson Street, Suite 260, 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.

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Statements of Net Assets

June 30, 2005 and 2004

(In thousands)

	<u>2005</u>	<u>2004</u>
Assets:		
Current assets:		
Deposits and investments with City Treasury	\$ 11,903	16,700
Deposits and investments held outside City Treasury	100	100
Cash on hand	347	279
Receivables:		
Grants	47,812	42,253
Due from the San Francisco County Transportation Authority	26,732	40,863
Due from other City departments	2,574	1,903
Charges for services (net of allowance for doubtful accounts of \$1,430 and \$26 in 2005 and 2004, respectively)	1,220	4,321
Other	18,094	13,301
Total receivables	96,432	102,641
Inventories	42,959	39,153
Current deferred charges	1	—
Total current assets	151,742	158,873
Restricted assets:		
Deposits and investments with City Treasury:		
Transit Impact Development Fee	32,028	36,563
Other restricted investments	816	899
Deposits and investments held outside City Treasury	3,320	4,415
Interest receivable	10	19
Transit Impact Development Fee receivable	5,303	5,529
Total restricted assets	41,477	47,425
Noncurrent deferred charges	—	4,000
Capital assets	1,778,547	1,745,399
Total noncurrent assets	1,820,024	1,796,824
Total assets	\$ 1,971,766	1,955,697

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

Statements of Net Assets

June 30, 2005 and 2004

(In thousands)

	<u>2005</u>	<u>2004</u>
Liabilities:		
Current liabilities:		
Due to other funds	\$ 2,593	2,221
Accounts payable and accrued expenses	27,289	38,161
Accrued payroll	13,317	12,038
Accrued vacation and sick leave	12,161	12,264
Accrued workers' compensation	22,837	24,142
Accrued claims	15,975	10,861
Deferred revenue and other deferred credits	3,035	2,869
Payable from restricted assets	861	941
Current capital lease obligations	—	168
Total current liabilities	<u>98,068</u>	<u>103,665</u>
Noncurrent liabilities:		
Accrued vacation and sick leave	9,086	9,271
Accrued workers' compensation	79,841	83,038
Accrued claims	30,057	19,484
Deferred revenue and other deferred credits	<u>34,204</u>	<u>39,687</u>
Total noncurrent liabilities	<u>153,188</u>	<u>151,480</u>
Total liabilities	<u>\$ 251,256</u>	<u>255,145</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 1,778,547	1,745,231
Restricted	40,616	46,484
Unrestricted	<u>(98,653)</u>	<u>(91,163)</u>
Total net assets	<u>\$ 1,720,510</u>	<u>1,700,552</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses,
and Changes in Net Assets

Years ended June 30, 2005 and 2004

(In thousands)

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Passenger fares	\$ 120,193	114,232
Advertising	3,927	11,606
Paratransit revenue	1,375	1,271
Charter service	20	23
Rental income	246	158
Other	1,670	27
Total operating revenues	<u>127,431</u>	<u>127,317</u>
Operating expenses:		
Personal services	370,562	376,033
Contractual services	24,609	18,844
Materials and supplies	29,205	24,525
Depreciation	86,305	81,464
Services from other City departments	22,383	21,798
General and administrative	39,116	28,051
Other operating expenses	6,885	2,406
Total operating expenses	<u>579,065</u>	<u>553,121</u>
Operating loss	<u>(451,634)</u>	<u>(425,804)</u>
Nonoperating revenues (expenses and losses):		
Operating assistance:		
Department of Parking and Traffic	132,708	131,339
Federal	23,214	18,714
State and other grants	75,717	69,057
Transit Impact Development Fee, net of expenses	191	310
Capital reserve revenue	1,484	1,442
Interest income	1,699	977
Interest expense	(389)	(322)
Loss on disposal of capital assets	(545)	(721)
Other, net	(4,427)	317
Total nonoperating revenues, net	<u>229,652</u>	<u>221,113</u>
Loss before capital contributions and transfers	<u>(221,982)</u>	<u>(204,691)</u>
Capital contributions:		
Federal	42,240	60,434
State and others	81,747	107,481
Total capital contributions	<u>123,987</u>	<u>167,915</u>
Transfers in:		
City and County of San Francisco – General Fund	101,704	99,576
San Francisco County Transportation Authority	16,177	15,818
San Francisco Public Works Department	72	303
San Francisco Parking & Traffic Department	—	992
Total transfers in	<u>117,953</u>	<u>116,689</u>
Change in net assets	19,958	79,913
Total net assets – beginning	<u>1,700,552</u>	<u>1,620,639</u>
Total net assets – ending	<u>\$ 1,720,510</u>	<u>1,700,552</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2005 and 2004

(In thousands)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from passengers and service contracts	\$ 146,977	139,028
Cash paid to employees for services	(374,110)	(376,124)
Cash paid to suppliers for goods and services	(95,496)	(81,927)
Cash paid for judgment and claims	(7,490)	(6,212)
Cash paid for quasi-external transactions	(22,011)	(18,590)
Net cash used in operating activities	<u>(352,130)</u>	<u>(343,825)</u>
Cash flows from noncapital financing activities:		
Operating grants	218,650	219,136
Transfers in	117,953	116,689
Transit Impact Development Fee received, net of expenses	426	559
Other noncapital increases	—	280
Other noncapital decreases	(211)	—
Net cash provided by noncapital financing activities	<u>336,818</u>	<u>336,664</u>
Cash flows from capital and related financing activities:		
Capital grants	135,814	184,543
Proceeds from sale of capital assets	17	20
Breda Lease receipts	—	72,555
Breda Lease payments	—	(68,134)
Payment on capital lease obligation	(168)	(168)
Acquisition of capital assets	(131,414)	(173,730)
Other capital decreases	(670)	(500)
Net cash provided by capital and related financing activities	<u>3,579</u>	<u>14,586</u>
Cash flows from investing activities:		
Purchases of investments with trustees – restricted	—	(1,760)
Proceeds from sale of investments with trustees – restricted	1,285	1,900
Interest income received	1,680	1,311
Interest expense paid	(389)	(322)
Net cash provided by investing activities	<u>2,576</u>	<u>1,129</u>
Net (decrease) increase in cash and cash equivalents	(9,157)	8,554
Cash and cash equivalents – beginning of year	<u>54,761</u>	<u>46,207</u>
Cash and cash equivalents – end of year	<u>\$ 45,604</u>	<u>54,761</u>

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

Statements of Cash Flows

Years ended June 30, 2005 and 2004

(In thousands)

	<u>2005</u>	<u>2004</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (451,634)	(425,804)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	86,305	81,464
Provision for doubtful accounts	1,404	(11)
Changes in operating assets and liabilities:		
Receivables, net	2,653	(2,310)
Inventories	(3,806)	(2,903)
Deferred charges	4,000	987
Accounts payable	70	(1,148)
Accrued payroll and accrued expenses	1,242	(9,725)
Accrued vacation and sick leave	(288)	116
Accrued workers' compensation	(4,502)	9,517
Accrued claims	15,687	3,910
Due to other funds	372	2,221
Deferred revenues and other deferred credits	(3,633)	(139)
Net cash used in operating activities	\$ <u>(352,130)</u>	<u>(343,825)</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Deposits with City Treasury:		
Unrestricted	\$ 11,903	16,700
Restricted	32,844	37,462
Deposits held outside City Treasury:		
Unrestricted	447	379
Restricted	410	220
Total cash and cash equivalents, end of year	\$ <u>45,604</u>	<u>54,761</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2005 and 2004

(Dollars in thousands, unless otherwise noted)

(1) Description of Reporting Entity

The financial statements include the San Francisco Municipal Railway (MUNI) and the San Francisco Municipal Railway Improvement Corporation (SFMRIC), whose operations are interrelated. All significant interentity transactions have been eliminated. The entities together are a department of the City and County of San Francisco (the City) and, as such, are reported as an enterprise fund in the City's Comprehensive Annual Financial Report.

MUNI has been the transit agency for the City since 1912 making it one of the first public transit agencies in the United States. MUNI's sources of income include passenger fares, grant funds, City subsidies, and other miscellaneous revenues. In November 1999, voters approved Proposition E, a Charter amendment, which authorized the creation of a Municipal Transportation Agency (MTA) to run MUNI and the MTA Board to oversee MUNI. The Board is comprised of seven members as appointed by the Mayor of San Francisco and confirmed by the Board of Supervisors of San Francisco. Directors' terms are staggered. Proposition E sets standards for performance and service to be provided by MUNI.

Proposition E also called for the integration of the City's Department of Parking and Traffic (DPT) into the MTA by July 1, 2002. Although the MTA includes both the DPT and MUNI, these financial statements only reflect the operations and financial position of MUNI and SFMRIC.

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.

(2) Significant Accounting Policies

(a) Basis of Accounting

The activities of MUNI and SFMRIC are accounted for using the accrual method. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. MUNI and SFMRIC apply 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.

(b) Cash and Cash Equivalents

MUNI 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. MUNI'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 month-end cash balances.

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

Notes to Financial Statements

June 30, 2005 and 2004

(Dollars in thousands, unless otherwise noted)

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. In accordance with GASB Statement No. 31, MUNI has reported its investments at fair value based on quoted market information obtained from fiscal agents or other sources.

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

Of the restricted deposits and investments of SFRMIC which are held outside City Treasury, \$410 as of June 30, 2005 and \$220 as of June 30, 2004 are considered cash equivalents as they do meet the same definition of cash and cash equivalents.

(c) Investments

MUNI and SFMRIC record investments at fair value with changes in fair value recorded as a component of gains/losses.

(d) Inventories

Inventories are valued at cost 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. Depreciation is computed by the straight-line method based on the estimated useful lives of the related assets which range from 10 to 60 years for building structures and improvements and infrastructure and from 3 to 45 years for equipment. 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 MUNI and become operative, they are transferred to the facilities and improvements and machinery and equipment accounts and depreciated in accordance with MUNI'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.

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

Notes to Financial Statements

June 30, 2005 and 2004

(Dollars in thousands, unless otherwise noted)

(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, 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.

(h) *Capital Grants and Contributions*

Capital grants and contributions from external sources are recognized as capital contribution earned at 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 MUNI for the acquisition and construction of transit-related property and equipment. This assistance generally approximates 80% of acquisition cost and is administered by MUNI and by the Metropolitan Transportation Commission (MTC). The capital assistance provided to MUNI by the California Transportation Commission and San Francisco County Transportation Authority (SFCTA) is generally used as local match to the federal capital assistance. However, additional capital assistance provided to MUNI 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, SFCTA is also a primary local funding source for capital projects. Certain MUNI expenditures for projects approved for funding by the SFCTA that are currently unbilled but will be billed to SFCTA in the near future are recorded as other current receivables.

(i) *Operating Assistance Grants*

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

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

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

Notes to Financial Statements

June 30, 2005 and 2004

(Dollars in thousands, unless otherwise noted)

(j) *Transit Impact Development Fees*

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

(k) *Token Revenues*

Token revenues are recognized at the time the tokens are sold.

(l) *Use of Estimates*

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

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

Notes to Financial Statements

June 30, 2005 and 2004

(Dollars in thousands, unless otherwise noted)

(3) Net Assets

Net assets as of June 30, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Restricted assets:		
Deposits and investments with City Treasury	\$ 32,844	37,462
Deposits and investments outside City Treasury	3,320	4,415
Receivables	5,313	5,548
Total restricted assets	<u>41,477</u>	<u>47,425</u>
Restricted liabilities of:		
SFMRIC	(41)	(39)
TIDF	(4)	(3)
Others	(816)	(899)
Total restricted liabilities	<u>(861)</u>	<u>(941)</u>
Restricted assets, net	<u>\$ 40,616</u>	<u>46,484</u>
Net assets:		
Restricted:		
Transit Impact Development Fee	\$ 37,328	42,089
SFMRIC	3,288	4,376
Other	—	19
Total restricted net assets	<u>40,616</u>	<u>46,484</u>
Unrestricted	(98,653)	(91,163)
Invested in capital assets	<u>1,778,547</u>	<u>1,745,231</u>
Net assets	<u>\$ 1,720,510</u>	<u>1,700,552</u>

(4) Deposits and Investments

MUNI's deposits and investments with the City Treasury are held by the City 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, 2005 and 2004, MUNI and SFMRIC's unrestricted deposits and investments were \$12,350 and \$17,079, respectively.

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

Notes to Financial Statements

June 30, 2005 and 2004

(Dollars in thousands, unless otherwise noted)

The restricted assets' deposits and investments outside the City Treasury are held by a trustee. As of June 30, 2005 and 2004, MUNI and SFMRIC had deposits and investments with the trustee of \$3,320 and \$4,415, respectively. Of the deposits, \$410 and \$220 as of June 30, 2005 and 2004, respectively, meet the definition of cash and cash equivalents.

(5) Capital Assets

Capital asset balances and their movements as of and for the year ended June 30, 2005 and 2004 are as follows:

	<u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 18,481	—	—	18,481
Construction-in-progress	<u>282,779</u>	<u>101,762</u>	<u>(5,338)</u>	<u>379,203</u>
Total capital assets not being depreciated	<u>301,260</u>	<u>101,762</u>	<u>(5,338)</u>	<u>397,684</u>
Capital assets being depreciated:				
Building structures and improvements	238,520	5,752	—	244,272
Equipment	1,046,790	4,787	(5,023)	1,046,554
Infrastructure	<u>703,673</u>	<u>13,052</u>	<u>—</u>	<u>716,725</u>
Total capital assets being depreciated	<u>1,988,983</u>	<u>23,591</u>	<u>(5,023)</u>	<u>2,007,551</u>
Less accumulated depreciation for:				
Building structures and improvements	93,555	5,843	—	99,398
Equipment	242,287	57,781	(4,461)	295,607
Infrastructure	<u>209,002</u>	<u>22,681</u>	<u>—</u>	<u>231,683</u>
Total accumulated depreciation	<u>544,844</u>	<u>86,305</u>	<u>(4,461)</u>	<u>626,688</u>
Total capital assets being depreciated, net	<u>1,444,139</u>	<u>(62,714)</u>	<u>(562)</u>	<u>1,380,863</u>
Total capital assets, net	<u>\$ 1,745,399</u>	<u>39,048</u>	<u>(5,900)</u>	<u>1,778,547</u>

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

Notes to Financial Statements

June 30, 2005 and 2004

(Dollars in thousands, unless otherwise noted)

Certain motorbuses and other various obsolete equipment were disposed of during 2005 for a net loss of \$562 offset by \$0.2 proceeds on the sale of these certain items.

	<u>Balance, July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2004</u>
Capital assets not being depreciated:				
Land	\$ 18,481	—	—	18,481
Construction-in-progress	190,157	172,858	(80,236)	282,779
Total capital assets not being depreciated	<u>208,638</u>	<u>172,858</u>	<u>(80,236)</u>	<u>301,260</u>
Capital assets being depreciated:				
Building structures and improvements	237,039	1,529	(48)	238,520
Equipment	1,002,036	70,146	(25,392)	1,046,790
Infrastructure	693,029	10,644		703,673
Total capital assets being depreciated	<u>1,932,104</u>	<u>82,319</u>	<u>(25,440)</u>	<u>1,988,983</u>
Less accumulated depreciation for:				
Building structures and improvements	87,442	6,158	(45)	93,555
Equipment	214,108	52,838	(24,659)	242,287
Infrastructure	186,534	22,468		209,002
Total accumulated depreciation	<u>488,084</u>	<u>81,464</u>	<u>(24,704)</u>	<u>544,844</u>
Total capital assets being depreciated, net	<u>1,444,020</u>	<u>855</u>	<u>(736)</u>	<u>1,444,139</u>
Total capital assets, net	<u>\$ 1,652,658</u>	<u>173,713</u>	<u>(80,972)</u>	<u>1,745,399</u>

MUNI has capital assets acquired from 1945 to 1987 with estimated lives of over 50 years, mainly cable car barn rehabilitation and substations, with a total cost of \$25,701 and a net book value of \$16,487 as of June 30, 2005.

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

Notes to Financial Statements

June 30, 2005 and 2004

(Dollars in thousands, unless otherwise noted)

Construction-in-progress consists of the following projects as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Third Street light rail	\$ 301,207	232,486
Articulated trolley coaches	1,995	388
Rail replacement	2,671	539
Metro Access Improvement	2,236	2,236
Cable Car Renovation	1,770	1,165
Islais Creek-Woods Annex	4,369	4,624
Trolley Overhead Reconstruction	7,215	7,762
Vehicle Scheduling System	2,129	1,960
Flynn Facility Lift Construction	982	2,325
Vehicle Inventory Management	—	3,919
Automatic Vehicle Location	3,013	2,092
Burke Ave Central Warehouse	9,966	—
New Central Subway	9,538	5,258
Motor Bus Replacement	3,184	2,639
Bayshore & Geary Corridor	9,476	4,893
Light rail vehicles	1,955	325
Others	17,497	10,168
	<u>\$ 379,203</u>	<u>282,779</u>

(6) Long-Term Debt

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 been authorized, of which \$7,800 is available for issuance. As of June 30, 2005 and 2004, no bonds were outstanding under the TIP.

MUNI entered into a lease-purchase agreement with System Finance Corporation for a network infrastructure upgrade amounting to \$511. The first payment of \$100 was paid on November 1, 2002, and the balance is to be paid in five equal installments of \$86 due and payable semiannually with a stated rate of interest of 3.43%. The total principal and interest payments in fiscal year 2005 were \$168 and \$4, respectively. As of June 30, 2005, the obligation on the capital lease was fully paid.

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

Notes to Financial Statements

June 30, 2005 and 2004

(Dollars in thousands, unless otherwise noted)

(7) 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 MUNI 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 MUNI and its employees. Employee contributions are mandatory. Employee contribution rates for 2005 and 2004 varied from 7.5% to 8.0% as a percentage of covered payroll. MUNI is required to contribute at an actuarially determined rate. MUNI's contributions were required for 2005, but not for 2004, as the actuarially determined contribution rate as a percentage of covered payroll was 4.48% in 2005, and 0% in 2004. MUNI's required contribution was approximately \$11,000 in 2005 and \$0 in 2004.

MUNI's contributions to the Retirement System on behalf of its employees amounted to \$10,016 and \$8,753 for the years ended June 30, 2005 and 2004, respectively. Effective in fiscal year 2004 and up to fiscal year 2005, the 7.5% employee contributions was paid by the employees with the exception of transit operators. Thus, MUNI's contributions to the Retirement System on behalf of its employees were reduced. For those groups of employees not mandated to contribute to the Retirement System, MUNI's contributions remained at 7% to 8% of covered payroll. MUNI's contributions in fiscal years 2005 and 2004 were equal to required employee contributions.

(b) Deferred Compensation Plan

The City offers its employees, including MUNI 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.

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(Dollars in thousands, unless otherwise noted)

MUNI has no administrative involvement and does not perform the investing function. MUNI has no fiduciary accountability for the plan, and accordingly, the plan assets and related liabilities to the plan participants are not included in these financial statements.

(c) Healthcare Benefits

Healthcare benefits for employees, retired employees, and surviving spouses (beneficiaries) are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System, an internal service fund. The contribution for all of the City's fund groups is determined by a Charter provision based on similar contributions made by the ten most populous counties in California. The costs to MUNI for the years ended June 30, 2005 and 2004 were \$44,446 and \$41,625, respectively. Included in these amounts are \$13,103 and \$11,109 for fiscal year 2005 and fiscal year 2004, respectively, to provide postretirement healthcare benefits for retired employees.

(8) 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. 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 a one-year notice. MUNI contributes for 11.6% of the net operating costs and administrative expenses of the PCJPB. MUNI contributed only for operating needs of \$6.4 million in fiscal year 2005. During fiscal year 2004, MUNI contributed \$8.6 million for both operating and capital needs.

(9) Self-Insurance

MUNI 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. MUNI 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. MUNI is self-insured for workers' compensation claims. The respective liabilities as of June 30, 2005 and 2004 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.

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Changes in the balances of claims liabilities and workers' compensation liabilities for the years ended June 30, 2005 and 2004 are as follows:

	2005	2004
Accrued claims liabilities, beginning of fiscal year	\$ 30,345	26,435
Incurred claims and changes in estimates	23,367	11,577
Claims payments	<u>(7,680)</u>	<u>(7,667)</u>
Accrued claims liabilities, end of fiscal year	<u>\$ 46,032</u>	<u>30,345</u>
Accrued workers' compensation, beginning of fiscal year	\$ 107,180	97,663
Incurred workers' compensation and changes in estimates	14,965	30,434
Workers' compensation payments	<u>(19,467)</u>	<u>(20,917)</u>
Accrued workers' compensation, end of fiscal year	<u>\$ 102,678</u>	<u>107,180</u>

Workers' compensation expense is part of personal services, while claims expense is part of general and administrative under operating expenses in the accompanying financial statements.

(10) Transactions with the City

The amount of operating subsidy provided to MUNI 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 MUNI to show a deficit on a budgetary basis. This policy does not provide cash to finance receivables. Consequently, MUNI 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 revenue transfer of \$384 to fund additional interest expense for the year ended June 30, 2005 that was recorded relating to any overdraft with the City Treasurer during the fiscal year.

(11) Federal, State, and Local Assistance

MUNI receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2005, MUNI had approved capital grants with unused balances amounting to \$278 million. Capital grants receivable as of June 30, 2005 totaled \$47 million.

MUNI also receives operating assistance from various federal, state, and local sources including Transit Development Act funds and sales tax allocations. As of June 30, 2005, MUNI had various operating grants receivable of \$26.4 million. In fiscal year 2005, MUNI's operating assistance includes BART ADA revenues of \$1.6 million, other federal, state, and local grants of \$7.0 million to fund project expenses that are operating in nature.

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The capital and operating grants identified above include funds received and due from SFCTA. During the fiscal year ended June 30, 2005, new capital grants were approved by SFCTA in the amount of \$81 million and payments received by MUNI for capital grants totaled \$87 million. As of June 30, 2005, MUNI had funds due from SFCTA for capital grants in the amount of \$24 million. Similarly, MUNI receives operating grants from SFCTA. During the fiscal year ended June 30, 2005, SFCTA approved new operating grants in the amount of \$17 million and payments received by MUNI totaled \$19 million. As of June 30, 2005, MUNI had \$3 million of funds due from SFCTA for operating grants.

(12) Property Rights in Perpetuity with the Port of San Francisco

Given that the proposed Metro East Light Rail Vehicle Maintenance and Operating Facility (Metro East) is an integral part of the Third Street Light Rail Project and is vital for relieving overcrowded conditions at MUNI's existing light rail facility, MUNI identified an approximately 17-acre site of the Western Pacific Railroad under the jurisdiction of the Port of San Francisco (Port) as the best location for the Metro East facility.

In March 2001, MUNI and the Port entered into a Memorandum of Understanding (MOU) under which MUNI may use the Metro East facility in perpetuity for rail vehicle maintenance, operations, and other operational needs at a cost of \$25.7 million.

The MOU also required MUNI to pay the Port an additional \$4 million to construct the Illinois Street Bridge over Islais Creek. Construction of this bridge will mitigate traffic in the area and improve coordination with MUNI's Metro East and Third Street Light Rail Project. In the event the Port fails to expend the money toward construction of the bridge within three years after the effective date of the MOU, the Port shall return the \$4 million to MUNI. MUNI has agreed to reasonably extend this deadline up to March 2006, provided the Port has demonstrated good faith efforts toward construction of the bridge. Any such return of funds shall have no effect on the rights granted to MUNI as specified in the MOU. Accordingly, the \$4 million paid to the Port is reflected as a noncurrent deferred charge, with the funding received from SFCTA as long-term deferred credit, in the accompanying statements of net assets as of June 30, 2004. The Port started construction of Illinois Street Bridge in May 2005 with substantial completion scheduled by the end July 2006. As of June 30, 2005, the \$4 million is reflected as nonoperating revenues and expenses.

(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 monies were expended in accordance with appropriate statutes, grant terms, and regulations. MUNI believes that no significant liabilities will result.

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(b) Operating Leases

MUNI 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 2030. These agreements are accounted for as operating leases. Rent expense was \$6,207 and \$6,016 for the years ended June 30, 2005 and 2004, respectively.

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

Years ending June 30:		
2006	\$	4,091
2007		3,628
2008		3,582
2009		3,583
2010		3,305
2011 – 2015		167
2016 – 2020		179
2021 – 2025		135
2026 – 2030		121
Total	\$	<u>18,791</u>

(c) Other Commitments

As of June 30, 2005, MUNI has outstanding commitments of approximately \$49,606 with third parties for various capital projects. Grant funding is available for the majority of this amount. MUNI also has outstanding commitments of approximately \$7,166 with third parties for noncapital expenditures. Various local funding sources are used to finance these expenditures.

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MUNI 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 MUNI for certain projects. The projects for which SFMRIC has guaranteed funding and the maximum amounts of such guarantees as of June 30, 2005 are as follows:

Local Match CA 93-9008	\$	76
Central Control and Revenue Center		141
Local Match for Paratransit Program		112
Historic Streetcar Shed		775
Islais Creek Storage Facility		864
New Orleans Historic Street Car		1,224
Muni Railway Replacement		1,139
	\$	<u>4,331</u>

In addition, MUNI is involved in various lawsuits, claims, and disputes, which have arisen in MUNI's routine conduct of business. In the opinion of management, the costs that might be incurred, if any, would not materially affect MUNI's or SFMRIC's financial position or changes in their net assets.

(14) Leveraged Lease-Leaseback of Breda Vehicles

Tranche 1

The Municipal Transportation Agency board of directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-leaseback transaction involving up to 150 BREDA light rail vehicles. The transaction would not involve financing or procurement of any new vehicles. Rather, MUNI's intention was to obtain an upfront economic benefit in return for entering into a lease-leaseback transaction involving the Breda light rail vehicles, without impairing the day-to-day operations of the transit system.

In April 2002, MUNI entered into the leveraged lease-leaseback transaction over 118 Breda light rail vehicles (the Tranche 1 Equipment). The transaction was structured as a head lease of the Tranche 1 Equipment to separate special purpose trusts and a sublease of the Tranche 1 Equipment back from such trusts. The sublease provides MUNI with an option to purchase the Tranche 1 Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Tranche 1 Equipment and is obligated to insure and maintain the Tranche 1 Equipment throughout the life of the sublease.

MUNI received an aggregate of \$388.2 million from the equity investors in full prepayment of the head lease. MUNI deposited \$352.7 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial

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Security Assurance, an “Aaa/AAA” rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI’s scheduled payments under the sublease as well as to provide a source of funding for MUNI’s purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI’s obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI’s obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote. Therefore, the trust assets and the sublease obligations are not recorded on the financial statements of MUNI as of June 30, 2005 or 2004.

As a result of the cash transactions above, 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 will be amortized over the life of the sublease. The deferred revenue amortized amounts were \$1.3 million in fiscal year 2005 and fiscal year 2004 respectively.

As of June 30, 2005, the outstanding payments to be made on the sublease through fiscal year 2027 are \$295.7 million and the payments to be made on the purchase option of the Tranche 1 Equipment would be \$643.1 million, if exercised. All of these payments are to be funded from the amounts in escrow. 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.

Tranche 2

In September 2003, after obtaining final approval from the Municipal Transportation Agency board of directors and the City and County’s board of supervisors, MUNI entered into a second leveraged lease-back transaction over 21 BREDAs 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 throughout the life of the sublease.

MUNI received an aggregate of \$72.6 million from the equity investors in full prepayment of the head lease. MUNI deposited approximately \$67.5 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an “Aaa/AAA” rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease.

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June 30, 2005 and 2004

(Dollars in thousands, unless otherwise noted)

Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2004 of \$4.4 million for the difference between the amount received of \$72.6 million and the amount paid to the escrows of \$67.5 million (minus \$0.7 million for certain transaction expenses). The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2005 amounted to \$168.

As of June 30, 2005, the outstanding payments to be made on the sublease through 2029 are \$59.7 million and the payments to be made on the purchase option of the Equipment would be \$198.5million, if exercised. All of these payments are to be funded from the amounts in escrow. 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; 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

(15) 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.

Provision made for the Wellness Program is to cover costs through fiscal year 2007 only. MUNI accrued \$191 at June 30, 2005 as estimated costs under this program.

SUPPLEMENTAL SCHEDULES

**SAN FRANCISCO MUNICIPAL RAILWAY AND
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IMPROVEMENT CORPORATION**

Supplemental Schedule – Schedule of Net Assets

June 30, 2005

(In thousands)

	<u>MUNI</u>	<u>SFMRIC</u>	<u>Eliminations</u>	<u>Total</u>
Assets:				
Current assets:				
Deposits and investments with City Treasury	\$ 11,903	—	—	11,903
Deposits and investments held outside City Treasury	100	—	—	100
Cash on hand	347	—	—	347
Receivables:				
Grants	47,812	—	—	47,812
Due from the San Francisco County Transportation Authority	26,732	—	—	26,732
Due from other City departments	2,574	—	—	2,574
Charges for services, net	1,220	—	—	1,220
Other	18,192	—	(98)	18,094
Total receivables	96,530	—	(98)	96,432
Inventories	42,959	—	—	42,959
Current deferred charges	1	—	—	1
Total current assets	151,840	—	(98)	151,742
Restricted assets:				
Deposits and investments with City Treasury:				
Transit Impact Development Fee	32,028	—	—	32,028
Other restricted investments	816	—	—	816
Deposits and investments held outside City Treasury	1	3,319	—	3,320
Interest receivable	—	10	—	10
Transit Impact Development Fee receivable, net	5,303	—	—	5,303
Total restricted assets	38,148	3,329	—	41,477
Noncurrent deferred charges	—	—	—	—
Capital assets	1,778,547	—	—	1,778,547
Total noncurrent assets	1,816,695	3,329	—	1,820,024
Total assets	\$ 1,968,535	3,329	(98)	1,971,766

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Supplemental Schedule – Schedule of Net Assets

June 30, 2005

(In thousands)

	<u>MUNI</u>	<u>SFMRIC</u>	<u>Eliminations</u>	<u>Total</u>
Liabilities:				
Current liabilities:				
Due to other funds	\$ 2,593	—	—	2,593
Accounts payable and accrued expenses	27,289	—	—	27,289
Accrued payroll	13,317	—	—	13,317
Accrued vacation and sick leave	12,161	—	—	12,161
Accrued workers' compensation	22,837	—	—	22,837
Accrued claims	15,975	—	—	15,975
Deferred revenue and other deferred credits	3,035	—	—	3,035
Current liabilities payable from restricted assets	819	140	(98)	861
Total current liabilities	<u>98,026</u>	<u>140</u>	<u>(98)</u>	<u>98,068</u>
Noncurrent liabilities:				
Accrued vacation and sick leave	9,086	—	—	9,086
Accrued workers' compensation	79,841	—	—	79,841
Accrued claims	30,057	—	—	30,057
Deferred revenue and other deferred credits	34,204	—	—	34,204
Total noncurrent liabilities	<u>153,188</u>	<u>—</u>	<u>—</u>	<u>153,188</u>
Total liabilities	<u>\$ 252,033</u>	<u>280</u>	<u>(196)</u>	<u>252,117</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 1,778,547			1,778,547
Restricted	37,329	3,189	98	40,616
Unrestricted	(98,555)	—	(98)	(98,653)
Total net assets	<u>\$ 1,717,321</u>	<u>3,189</u>	<u>—</u>	<u>1,720,510</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL RAILWAY AND
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Supplemental Schedule – Schedule of Revenues, Expenses,
and Changes in Net Assets

Year ended June 30, 2005

(In thousands)

	MUNI	SFMRIC	Eliminations	Total
Operating revenues:				
Passenger fares	\$ 120,193	—	—	120,193
Advertising	3,927	—	—	3,927
Paratransit revenue	1,375	—	—	1,375
Charter service	20	—	—	20
Rental income	246	—	—	246
Other	1,670	—	—	1,670
Total operating revenues	127,431	—	—	127,431
Operating expenses:				
Personal services	370,562	—	—	370,562
Contractual services	24,609	—	—	24,609
Materials and supplies	29,205	—	—	29,205
Depreciation	86,305	—	—	86,305
Services from other City departments	22,383	—	—	22,383
General and administrative	39,076	40	—	39,116
Other operating expenses	6,885	—	—	6,885
Total operating expenses	579,025	40	—	579,065
Operating loss	(451,594)	(40)	—	(451,634)
Nonoperating revenues (expenses):				
Operating assistance:				
Department of Parking and Traffic	132,708	—	—	132,708
Federal	23,214	—	—	23,214
State and other grants	75,717	—	—	75,717
Transit Impact Development Fee, net of expenses	191	—	—	191
Capital reserve revenue	1,484	—	—	1,484
Interest income	1,595	104	—	1,699
Interest expense	(389)	—	—	(389)
Loss on disposal of capital assets	(545)	—	—	(545)
Capital assistance of SFMRIC to MUNI	1,245	(1,245)	—	—
Other, net	(4,427)	—	—	(4,427)
Total nonoperating revenues, net	230,793	(1,141)	—	229,652
Loss before capital contribution and transfers	(220,801)	(1,181)	—	(221,982)
Capital contributions:				
Federal	42,240	—	—	42,240
State and others	81,747	—	—	81,747
Total capital contributions	123,987	—	—	123,987
Transfers in:				
City and County of San Francisco – General Fund	101,704	—	—	101,704
San Francisco County Transportation Authority	16,177	—	—	16,177
San Francisco Public Works Department	72	—	—	72
Total transfers in	117,953	—	—	117,953
Change in net assets	21,139	(1,181)	—	19,958
Total net assets – beginning	1,696,182	4,370	—	1,700,552
Total net assets – ending	\$ 1,717,321	3,189	—	1,720,510

See accompanying independent auditors' report.

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

Supplemental Schedule of Grants – Federal

Year ended June 30, 2005

(In thousands)

	Authorized grants as of July 1, 2004	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2005	Amounts not expended as of June 30, 2005	Grants receivable as of June 30, 2005
Capital grants:							
Construct Islais Creek Facility	\$ 2,467	—	—	—	2,467	(2,467)	—
Construct Islais Creek	4,798	—	—	—	4,798	(4,798)	—
LRV Purchase	1,301	—	(1,177)	—	124	—	124
Section 9 Fiscal Year 1989/90	21	—	(21)	—	—	—	—
Section 9 Fiscal Year 1990/91	194	—	(14)	—	180	(82)	98
Section 9 Fiscal Year 1992/93	—	—	—	—	—	—	—
Section 9 Fiscal Year 1993/94	530	—	24	—	554	(332)	222
Section 9 Fiscal Year 1994/95	254	—	(174)	—	80	(5)	75
Section 9 Fiscal Year 1995/96	553	—	(439)	—	114	(98)	16
Section 9 Fiscal Year 1998/99	3,762	—	(319)	—	3,443	(3,395)	48
Section 9 Fiscal Year 1999/00	17,849	—	(5,402)	—	12,447	(10,541)	1,906
Section 9 Fiscal Year 2000/01	6,188	—	(3,732)	—	2,456	(2,068)	388
Section 9 Fiscal Year 2001/02	52,960	681	(15,327)	(7,841)	30,473	(26,244)	4,229
Section 9 Fiscal Year 2002/03	26,361	—	(688)	(955)	24,718	(23,357)	1,361
Section 9 Fiscal Year 2003/04	27,321	—	(595)	—	26,726	(17,199)	9,527
Section 9 Fiscal Year 2004/05	—	47,087	—	—	47,087	(47,087)	—
Section 3 -Central Control Facility	990	—	(40)	—	950	(946)	4
Section 3 New Central Subway	666	8,858	(2,214)	—	7,310	(5,757)	1,553
Section 3 Third Street Metro East	34,088	8,837	(7,573)	—	35,352	(35,352)	—
Section 3 -PM Traps Fleet	—	3,960	—	—	3,960	(3,088)	872
Radio Replacement	207	—	—	—	207	(207)	—
Automatic Vehicle Location	—	1,987	—	—	1,987	(1,685)	302
Total capital grants	<u>\$ 180,510</u>	<u>71,410</u>	<u>(37,691)</u>	<u>(8,796)</u>	<u>205,433</u>	<u>(184,708)</u>	<u>20,725</u>
Pass through grants:							
Transbay Terminal CA90-0212	—	955	—	—	955	(955)	—
Transbay Terminal CA90-0124	7,249	—	(3,835)	—	3,414	(2,793)	621
Total Pass Through Grants	<u>\$ 7,249</u>	<u>955</u>	<u>(3,835)</u>	<u>—</u>	<u>4,369</u>	<u>(3,748)</u>	<u>621</u>
Operating grants:							
Operating assistance	\$ 13,681	18,754	(13,681)	—	18,754	—	18,754
Additional operating assistance	4,000	—	(4,000)	—	—	—	—
SRTP-CPT529 and 473	124	—	(109)	(15)	—	—	—
Total operating grants	<u>\$ 17,805</u>	<u>18,754</u>	<u>(17,790)</u>	<u>(15)</u>	<u>18,754</u>	<u>—</u>	<u>18,754</u>

See accompanying independent auditors' report.

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

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2005

(In thousands)

	Authorized grants as of July 1, 2004	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2005	Amounts not expended as of June 30, 2005	Grants receivable as of June 30, 2005
Capital grants:							
Transit Signal Preemption	191	—	(191)	—	—	—	—
Central Freeway Demolition	—	49	(49)	—	—	—	—
Total capital grants	\$ 191	49	(240)	—	—	—	—

See accompanying independent auditors' report.

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

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2005

(In thousands)

	Authorized grants as of July 1, 2004	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2005	Amounts not expended as of June 30, 2005	Grants receivable as of June 30, 2005
Capital grants:							
Bridge toll:							
Accessible Vans	\$ —	124	—	—	124	(103)	21
Cable Car Renovation	67	174	(9)	—	232	(124)	108
F-Embarcadero Extension	1,284	—	(19)	—	1,265	(1,122)	143
Motor Coach Replacement	2,620	1,447	(662)	—	3,405	(2,653)	752
Overhead Reconstruction	1,712	—	(1,712)	—	—	—	—
Tract Replacement	1,180	49	(51)	—	1,178	(1,178)	—
Third Street Light Rail	—	11,000	—	—	11,000	(11,000)	—
Cable Car Guideway	—	560	(97)	—	463	(463)	—
Historic rail Enclosure	—	625	(1)	—	624	(594)	30
Bus Catalyst Devices	—	394	(100)	—	294	(294)	—
MC Procurement Hybrids	—	420	(89)	—	331	(314)	17
Paratransit Mini Vans	—	85	—	—	85	(83)	2
New Jersey PCC	—	1,425	(219)	—	1,206	(845)	361
E-line Embarcadero Streetcar	—	4,285	—	—	4,285	(4,285)	—
Match to Capital Grants	—	2,946	—	—	2,946	(2,946)	—
Total capital grants	<u>\$ 6,863</u>	<u>23,534</u>	<u>(2,959)</u>	<u>—</u>	<u>27,438</u>	<u>(26,004)</u>	<u>1,434</u>
Pass Through Grants:							
Transbay Terminal	<u>390</u>	<u>653</u>	<u>(1,043)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Operating grants:							
AB1107 Sales Tax	\$ 2,696	29,729	(29,786)	—	2,639	—	2,639
State Transit Assistance	2,353	11,448	(11,403)	—	2,398	—	2,398
Transportation Development Act	—	26,377	(26,377)	—	—	—	—
STA- Treasure Island	—	214	(214)	—	—	—	—
Total operating grants	<u>\$ 5,049</u>	<u>67,768</u>	<u>(67,780)</u>	<u>—</u>	<u>5,037</u>	<u>—</u>	<u>5,037</u>

See accompanying independent auditors' report.

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

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2005

(In thousands)

	Authorized grants as of July 1, 2004	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2005	Amounts not expended as of June 30, 2005	Grants receivable as of June 30, 2005
Capital grants:							
3rd Light Rail-Preliminary Design	\$ 76,980	68,003	(79,641)	(1,700)	63,642	(44,298)	19,344
Articulated Trolley Bus Purchase	3,042	—	(1,390)	—	1,652	(1,606)	46
Cable Car Infrastructure	—	260	(82)	—	178	(174)	4
Central Subway	937	—	(937)	—	—	—	—
Diesel Bus Purchase	3,166	—	(626)	—	2,540	(1,822)	718
Escalator Replacement Study	110	—	—	—	110	(110)	—
F-Line Embarcadero Extension	1,069	—	(247)	—	822	(783)	39
Facilities Rehabilitation and Improvement	7,077	2,175	(1,278)	(1,222)	6,752	(4,894)	1,858
Financial Capacity Study	240	—	—	—	240	(240)	—
Fueling Facility - Islais Creek	—	500	(500)	—	—	—	—
Geneva Building Demolition	316	—	(129)	—	187	(187)	—
Gillig Motor Coaches	—	3,735	—	—	3,735	(2,514)	1,221
Historic Trolley Shed	91	—	—	—	91	(91)	—
Metro East LRV Facility	2	—	—	—	2	(2)	—
Overhead Rehab Program	—	3,178	(9)	—	3,169	(3,038)	131
Rail Replacement/Maintenance Equipment	127	2,173	(7)	(127)	2,166	(2,154)	12
Streetcar Rehabilitation	1,304	—	(533)	—	771	(735)	36
Woods Division Renovation	2,042	—	(614)	—	1,428	(1,283)	145
Wood/Potrero Roof Replacement	886	80	(203)	—	763	(763)	—
Cowcap 2002 Outstanding Receivable	223	—	(223)	—	—	—	—
Auto Vehicle Location & ETI Bus Lifts	767	—	(362)	—	405	(173)	232
Facilities Preservation Improvement Program-FPIF	1,185	—	—	(1,185)	—	—	—
Total capital grants	<u>\$ 99,564</u>	<u>80,104</u>	<u>(86,781)</u>	<u>(4,234)</u>	<u>88,653</u>	<u>(64,867)</u>	<u>23,786</u>

See accompanying independent auditors' report.

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

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2005

(In thousands)

	Authorized grants as of July 1, 2004	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2005	Amounts not expended as of June 30, 2005	Grants receivable as of June 30, 2005
Operating grants:							
F-Line Operations and Maintenance	\$ —	1,240	(1,240)	—	—	—	—
Graffiti Preventions	169		(155)	—	14	(3)	11
Capital Grant Staffing	80	360	(379)	—	61	(9)	52
Emergency Pavement Repairs	—	880	(471)	—	409	(409)	—
Muni Metro Extension Operations and Maintenance	—	4,000	(4,000)	—	—	—	—
Paratransit Contract	4,835	9,670	(12,005)	—	2,500	—	2,500
Transit Preferential Streets	21	62	(49)	—	34	(20)	14
Trolley Bus Lifts Operations and Maintenance	271	610	(268)	—	613	(482)	131
Total operating grants	\$ <u>5,376</u>	<u>16,822</u>	<u>(18,567)</u>	<u>—</u>	<u>3,631</u>	<u>(923)</u>	<u>2,708</u>

See accompanying independent auditors' report.

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

Supplemental Schedule of Grants – Others

Year ended June 30, 2005

(In thousands)

	Authorized grants as of July 1, 2004	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2005	Amounts not expended as of June 30, 2005	Grants receivable as of June 30, 2004
Capital grants:							
Bay Area Air Quality Management District:							
Alternative Fuel Demonstration Project – R&D	\$ 20	—	—	—	20	(20)	—
Bike Rack Retrofit	67	—	(53)	(4)	10	(10)	—
Bus Signal & Communication Equipments	22	—	—	—	22	(22)	—
PM Traps Fleet	—	749	(194)	—	555	(21)	534
Lighting Retrofit	150	—	—	—	150	(150)	—
Translink Project	—	213	—	—	213	(98)	115
Department of Justice	—	2,611	(311)	—	2,300	(1,982)	318
Steuart & Mission Site	—	750	(750)	—	—	—	—
Total capital grants	<u>\$ 259</u>	<u>4,323</u>	<u>(1,308)</u>	<u>(4)</u>	<u>3,270</u>	<u>(2,303)</u>	<u>967</u>
Pass Through Grants:							
Homeland Security	<u>—</u>	<u>300</u>	<u>(10)</u>	<u>—</u>	<u>290</u>	<u>(207)</u>	<u>83</u>
Operating in nature:							
Bay Area Rapid Transit	<u>—</u>	<u>366</u>	<u>(316)</u>	<u>—</u>	<u>50</u>	<u>(50)</u>	<u>—</u>

See accompanying independent auditors' report.