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SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Financial Statements
and Supplemental Schedules

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

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SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION

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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 Transit Agency (MTA), as of and for the years ended June 30, 2004 and 2003, 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. 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 financial statements present only MUNI and SFMRIC and do not purport to, and do not, present fairly the financial position of the City or the MTA as of June 30, 2004 and 2003, and the changes in its financial position and its 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, 2004 and 2003, 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 November 23, 2004 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.

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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

November 23, 2004

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, 2004 and 2003. 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 $1,700,552.
- MUNI and SFMRIC's total net assets increased by $79,913. 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, 2004 and 2003.

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.

(Continued)

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.

(Continued)

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 $1,700,552 at the close of the most recent fiscal year.

Summary of Net Assets

June 30, 2004, 2003 and 2002

(In thousands)

		2004	2003	2002
Assets:				
Total current assets	$	158,873	154,207	165,715
Total restricted assets		47,425	56,208	62,376
Noncurrent deferred charges		4,000	4,000	4,000
Capital assets		1,745,399	1,652,658	1,559,864
Total assets		1,955,697	1,867,073	1,791,955
Liabilities:				
Total current liabilities		103,665	109,142	112,462
Total noncurrent liabilities		151,480	137,292	126,353
Total liabilities		255,145	246,434	238,815
Net assets:				
Invested in capital assets, net of related debt		1,745,231	1,652,327	1,559,864
Restricted net assets		46,484	55,304	61,453
Unrestricted net assets		(91,163)	(86,992)	(68,177)
Total net assets	$	1,700,552	1,620,639	1,553,140

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.

(Continued)

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. There was no related debt outstanding in fiscal year 2002.

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 2003

MUNI and SFMRIC's net assets increased by $67,499 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 motor coaches, and capitalization of infrastructure investments.

Almost all of MUNI's net assets ($1,652,327 as of June 30, 2003) reflect its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, and construction-in-progress). The value of these assets of $2,140,742 is offset by accumulated depreciation and amortization of $488,084. 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, 2003, the related debt amounted to $331. In fiscal year 2002, there was no related debt outstanding.

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.

(Dollars in thousands, unless otherwise noted)

	2004	2003	2002
Revenues:			
Total operating revenues	$ 127,317	109,490	107,455
Total nonoperating revenues, net	221,113	210,060	220,453
Capital contributions:			
Federal	60,434	80,454	163,071
State and others	107,481	79,818	52,992
Total capital contributions	167,915	160,272	216,063
Total operating transfers in	116,689	116,984	111,138
Total revenues and transfers in	633,034	596,806	655,109
Expenses:			
Total operating expenses	553,121	529,307	528,725
Operating transfers out	—	—	193
Total expenses and transfers out	553,121	529,307	528,918
Changes in net assets	79,913	67,499	126,191
Total net assets – beginning	1,620,639	1,553,140	1,426,949
Total net assets – ending	$ 1,700,552	1,620,639	1,553,140

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.

Fiscal Year 2003

Total revenues for the year ended June 30, 2003 were $596,806. This is $58,303 lower than for the previous year, due primarily to a decrease in capital contributions and nonoperating revenues.

Operating revenues increased by $2,035, or 2%, which was primarily due to increase in transit advertising revenue and the net increase in passenger revenue due to recognition of deferred token revenue in fiscal year 2003. Nonoperating revenues decreased compared to the previous year by $10,393, 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. State operating grants decreased in fiscal year 2003 mainly from reduction in operating support from the State's sales taxes due to economic slowdown as well as decrease in interest income due to lower interest rates. Capital contributions decreased by $55,791, or 26%. Capital contributions consist principally of funds received or receivable from federal and state grant agencies that provide funding for many of MUNI's capital projects. Net transfers increased by $5,846, or 5%, due to increase in subsidy from the city's General Fund.

Total expenses for the year ended June 30, 2003 were $529,307. This is slightly higher by $582 than the previous year due to increases in salaries and fringe benefits and depreciation for newly acquired rolling stock, offset by decrease in materials and supplies expenses. The decrease in material and supplies expenses compared to fiscal year 2002 was substantially attributable to a write-off of $7,145 of obsolete items in fiscal year 2002. The workers' compensation reserve increased by $15,321 due primarily to the increased severity in the claims and an increase in claims reserves, which also increased workers' compensation expense.

Capital Assets and Debt Administration

Capital Assets. MUNI and SFMRIC's investment in capital assets amounts to $1,745,399, net of accumulated depreciation at June 30, 2004. This investment includes land, building structures and improvements, equipment, infrastructure, and construction-in-progress. The capital assets increased by $92,741, or 6%, compared to the previous year. This increase is attributable to increases of equipment due to the acquisition of new rolling stock and capitalization of infrastructure investments.

Summary of Capital Assets

(In thousands)

		Balance, June 30, 2004	Balance, June 30, 2003	Balance, June 30, 2002
Capital assets not being depreciated:				
Land	$	18,481	18,481	18,481
Construction-in-progress		282,779	190,157	291,645
Total capital assets not being depreciated		301,260	208,638	310,126
Capital assets being depreciated:				
Building structures and improvements		238,520	237,039	231,967
Equipment		1,046,790	1,002,036	814,000
Infrastructure		703,673	693,029	646,276
Total capital assets being depreciated		1,988,983	1,932,104	1,692,243
Less accumulated depreciation for:				
Building structures and improvements		93,555	87,442	81,413
Equipment		242,287	214,108	195,944
Infrastructure		209,002	186,534	165,148
Total accumulated depreciation		544,844	488,084	442,505
Total capital assets being depreciated, net		1,444,139	1,444,020	1,249,738
Total capital assets, net	$	1,745,399	1,652,658	1,559,864

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, Mission Bay, downtown, and the rest of the Metro system. Construction of Phase I, which links the 4th and King Street area to the Bayshore Caltrain station, continued in fiscal year 2004 and is scheduled to be complete in the summer of 2005. Testing and training will be performed through the following fall and winter, with revenue service slated to begin in Spring of 2006. Phase II of the Third Street project, the Central Subway, will provide an underground transit link between 4th and King Street north to Union Square and Chinatown. In fiscal year 2004, conceptual engineering began on Phase II.

Other capital asset events during the fiscal year 2004 included:

- Completion and capitalization of MUNI Surface Street Improvement project on 15th and Taraval and K-line overhead rail construction.
- Acquisition of additional 2 BREDA 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 shop renovation project.

Significant capital asset events during the fiscal year 2003 included:

- Completion and capitalization of MUNI Metro electrical improvement emergency lighting in March 2003.
- Acquisition of additional 13 BREDA Light Rail vehicles.
- Acquisition of additional 96 trolley coaches.
- Acquisition of 95 Neoplan motor coaches.
- Completion and capitalization of the L-line re-railing and track replacement at the Zoo in March 2003.

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 2004 amounted to $1.3 million.

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 $.7 million for other transaction expenses). The deferred revenue amortized in fiscal year 2004 amounted to $126.

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, 2004 and 2003.

Economic Factors and Next Year's Budget

The economic recession that began in April 2000 continues to affect several sources of MUNI revenues. Beginning in fiscal year 2002, MUNI's revenue sources began to decline as they are sensitive to economic conditions and factors such as employment and tourism levels. At the same time, the fixed costs associated with MUNI's core services have continued to rise, such as wage rates, health benefit costs, and fuel costs. Because of these factors, MUNI and the City have implemented measures to reduce costs by shifting the burden of the employee retirement contribution to the employee (a cost previously carried by the employer), and generally not filling nonvehicle driver vacant positions in 2004. In addition, these economic difficulties were considered in preparing MUNI's budget for fiscal year 2005. In order to balance the budget, reductions in both service and personnel were approved. In addition, flexible capital funds were utilized to support operating expenditures on a one-time basis.

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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 Alicia Fletche, Finance and Administration, MUNI, 875 Stevenson, Room 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.

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION

Statements of Net Assets

June 30, 2004 and 2003

(In thousands)

		2004	2003
Assets:			
Current assets:			
Deposits and investments with City Treasury	$	16,700	—
Deposits and investments held outside City Treasury		100	100
Cash on hand		279	333
Receivables:			
Grants		42,253	41,322
Due from the San Francisco County Transportation Authority		40,863	59,352
Due from other City departments		1,903	1,043
Charges for services (net of allowance for doubtful accounts of $26 and $36 in 2004 and 2003, respectively)		4,321	2,311
Other		13,301	12,509
Total receivables		102,641	116,537
Inventories		39,153	36,250
Current deferred charges		—	987
Total current assets		158,873	154,207
Restricted assets:			
Deposits and investments with City Treasury:			
Transit Impact Development Fee		36,563	44,794
Other restricted investments		899	820
Deposits and investments held outside City Treasury		4,415	4,593
Interest receivable		19	18
Transit Impact Development Fee receivable		5,529	5,983
Total restricted assets		47,425	56,208
Noncurrent deferred charges		4,000	4,000
Capital assets		1,745,399	1,652,658
Total noncurrent assets		1,796,824	1,712,866
Total assets	$	1,955,697	1,867,073

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SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION

Statements of Net Assets

June 30, 2004 and 2003

(In thousands)

	2004	2003
Liabilities:		
Current liabilities:		
Due to other funds	$ 2,221	—
Accounts payable and accrued expenses	38,161	37,380
Accrued payroll	12,038	22,374
Accrued vacation and sick leave	12,264	12,299
Accrued workers' compensation	24,142	22,565
Accrued claims	10,861	10,405
Deferred revenue and other deferred credits	2,869	3,052
Payable from restricted assets	941	904
Current capital lease obligations	168	163
Total current liabilities	103,665	109,142
Noncurrent liabilities:		
Accrued vacation and sick leave	9,271	9,120
Accrued workers' compensation	83,038	75,098
Accrued claims	19,484	16,030
Deferred revenue and other deferred credits	39,687	36,876
Long-term capital lease obligations	—	168
Total noncurrent liabilities	151,480	137,292
Total liabilities	$ 255,145	246,434
Net assets:		
Invested in capital assets, net of related debt	$ 1,745,231	1,652,327
Restricted	46,484	55,304
Unrestricted	(91,163)	(86,992)
Total net assets	$ 1,700,552	1,620,639

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, 2004 and 2003

(In thousands)

		2004	2003
Operating revenues:			
Passenger fares	$	114,232	97,764
Advertising		11,606	10,393
Paratransit revenue		1,271	1,071
Charter service		23	16
Rental income		158	160
Other		27	86
Total operating revenues		127,317	109,490
Operating expenses:			
Personal services		376,033	380,377
Contractual services		18,844	16,718
Materials and supplies		24,525	23,718
Depreciation		81,464	67,099
Services from other City departments		21,798	21,681
General and administrative		28,051	14,101
Other operating expenses		2,406	5,613
Total operating expenses		553,121	529,307
Operating loss		(425,804)	(419,817)
Nonoperating revenues (expenses):			
Operating assistance:			
Department of Parking and Traffic		131,339	113,094
Federal		18,714	17,955
State and other grants		69,057	73,884
Transit Impact Development Fee, net of expenses		310	2,854
Capital reserve revenue		1,442	1,315
Interest income		977	1,926
Interest expense		(322)	(488)
Loss on disposal of capital assets		(721)	(501)
Other, net		317	21
Total nonoperating revenues, net		221,113	210,060
Loss before capital contributions and transfers		(204,691)	(209,757)
Capital contributions:			
Federal		60,434	80,454
State and others		107,481	79,818
Total capital contributions		167,915	160,272
Transfers in:			
City and County of San Francisco – General Fund		99,576	101,274
San Francisco County Transportation Authority		15,818	15,710
San Francisco Public Works Department		303	—
San Francisco Parking & Traffic Department		992	—
Total transfers in		116,689	116,984
Net transfers		116,689	116,984
Change in net assets		79,913	67,499
Total net assets – beginning		1,620,639	1,553,140
Total net assets – ending	$	1,700,552	1,620,639

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, 2004 and 2003

(In thousands)

		2004	2003
Cash flows from operating activities:			
Cash received from passengers and service contracts	$	139,028	126,674
Cash paid to employees for services		(376,124)	(363,635)
Cash paid to suppliers for goods and services		(81,927)	(78,674)
Cash paid for judgment and claims		(6,212)	(6,963)
Cash paid for quasi-external transactions		(18,590)	(21,950)
Net cash used in operating activities		(343,825)	(344,548)
Cash flows from noncapital financing activities:			
Operating grants		219,136	180,438
Transfers in		116,689	116,984
Transit Impact Development Fee received, net of expenses		559	3,199
Other noncapital increases		280	—
Other noncapital decreases		—	(171)
Net cash provided by noncapital financing activities		336,664	300,450
Cash flows from capital and related financing activities:			
Capital grants		184,543	125,920
Proceeds from sale of capital assets		20	661
Breda Lease receipts		72,555	—
Breda Lease payments		(68,134)	—
Payment on capital lease obligation		(168)	—
Acquisition of capital assets		(173,730)	(162,756)
Other capital decreases		(500)	(1,538)
Net cash provided by (used in) capital and related financing activities		14,586	(37,713)
Cash flows from investing activities:			
Purchases of investments with trustees – restricted		(1,760)	(9,013)
Proceeds from sale of investments with trustees – restricted		1,900	4,600
Interest income received		1,311	2,055
Interest expense paid		(322)	(488)
Net cash provided by (used in) investing activities		1,129	(2,846)
Net increase (decrease) in cash and cash equivalents		8,554	(84,657)
Cash and cash equivalents – beginning of year		46,207	130,864
Cash and cash equivalents – end of year	$	54,761	46,207

(Continued)

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION

Statements of Cash Flows

Years ended June 30, 2004 and 2003

(In thousands)

		2004	2003
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(425,804)	(419,817)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation		81,464	67,099
Provision for doubtful accounts		(11)	2
Changes in operating assets and liabilities:			
Receivables, net		(2,310)	2,901
Inventories		(2,903)	(6,452)
Deferred charges		987	(263)
Accounts payable		(1,148)	(734)
Accrued payroll and accrued expenses		(9,725)	985
Accrued vacation and sick leave		116	436
Accrued workers' compensation		9,517	15,321
Accrued claims		3,910	(2,276)
Due to other funds		2,221	—
Deferred revenues and other deferred credits		(139)	(1,750)
Net cash used in operating activities	$	(343,825)	(344,548)
Reconciliation of cash and cash equivalents to the statements of net assets:			
Deposits with City Treasury:			
Unrestricted	$	16,700	—
Restricted		37,462	45,614
Deposits held outside City Treasury:			
Unrestricted		379	433
Restricted		220	160
Total cash and cash equivalents, end of year	$	54,761	46,207

See accompanying notes to financial statements.

(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 throughout 2004, these financial statements only reflect the operations and financial position of MUNI and SFMRIC for both 2004 and 2003.

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

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.

(Continued)

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, $220 as of June 30, 2004 and $160 as of June 30, 2003 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.

(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.

(Continued)

(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.

(Dollars in thousands, unless otherwise noted)

(3) Net Assets

Net assets as of June 30, 2004 and 2003 consist of the following:

Restricted assets:			
Deposits and investments with City Treasury	$	37,462	45,614
Deposits and investments outside City Treasury		4,415	4,593
Receivables		5,548	6,001
Total restricted assets		47,425	56,208
Restricted liabilities of:			
SFMRIC		(39)	(56)
TIDF		(3)	(28)
Others		(899)	(820)
Total restricted liabilities		(941)	(904)
Restricted assets, net	$	46,484	55,304
Net assets:			
Restricted:			
Transit Impact Development Fee	$	42,089	50,749
SFMRIC		4,376	4,537
Other		19	18
Total restricted net assets		46,484	55,304
Unrestricted		(91,163)	(86,992)
Invested in capital assets		1,745,231	1,652,327
Net assets	$	1,700,552	1,620,639

(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 custodial risk associated with the City's pooled deposits and investments. As of June 30, 2004 and 2003, MUNI and SFMRIC's unrestricted deposits and investments were $17,079 and $433, respectively. The increase of MUNI's unrestricted deposits and investments and the related decrease in MUNI's receivable from San Francisco Transportation Authority (SFCTA) resulted from a timely billing and payment by the funding agency.

(Continued)

(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, 2004 and 2003, MUNI and SFMRIC had deposits and investments with the trustee of $4,415 and $4,593, respectively. Of the deposits, $220 and $160 as of June 30, 2004 and 2003, 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, 2004 and 2003 are as follows:

	Balance, July 1, 2003	Increases	Decreases	Balance, June 30, 2004
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	208,638	172,858	(80,236)	301,260
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	1,932,104	82,319	(25,440)	1,988,983
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	488,084	81,464	(24,704)	544,844
Total capital assets being depreciated, net	1,444,020	855	(736)	1,444,139
Total capital assets, net	$ 1,652,658	173,713	(80,972)	1,745,399

Certain motorbuses and other various obsolete equipment were disposed of during 2004 for a net loss of $736, offset by $15 proceeds on the sale of these certain items.

(Dollars in thousands, unless otherwise noted)

	Balance, July 1, 2002	Increases	Decreases	Balance, June 30, 2003
Capital assets not being depreciated:				
Land	$ 18,481	—	—	18,481
Construction-in-progress	291,645	160,272	(261,760)	190,157
Total capital assets not being depreciated	310,126	160,272	(261,760)	208,638
Capital assets being depreciated:				
Building structures and improvements	231,967	5,072	—	237,039
Equipment	814,000	210,735	(22,699)	1,002,036
Infrastructure	646,276	46,753	—	693,029
Total capital assets being depreciated	1,692,243	262,560	(22,699)	1,932,104
Less accumulated depreciation for:				
Building structures and improvements	81,413	6,029	—	87,442
Equipment	195,944	39,684	(21,520)	214,108
Infrastructure	165,148	21,386	—	186,534
Total accumulated depreciation	442,505	67,099	(21,520)	488,084
Total capital assets being depreciated, net	1,249,738	195,461	(1,179)	1,444,020
Total capital assets, net	$ 1,559,864	355,733	(262,939)	1,652,658

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 $16,916 as of June 30, 2004.

(Continued)

(Dollars in thousands, unless otherwise noted)

Construction-in-progress consists of the following projects as of June 30, 2004 and 2003:

		2004	2003
Third Street light rail	$	232,486	129,450
Articulated trolley coaches		388	34,691
Rail replacement		539	483
Metro Access Improvement		2,236	1,369
Cable Car Renovation		1,165	1,096
Islais Creek-Woods Annex		4,624	3,750
Trolley Overhead Reconstruction		939	5,185
Vehicle Scheduling System		1,960	1,549
Flynn Facility Lift Construction		2,325	1,050
Vehicle Inventory Management		3,919	2,618
Automatic Vehicle Location		2,092	1,259
Diesel Bus Procurement		—	704
New Central Subway		5,258	—
Overhead Reconstruction		6,823	—
Motor Bus Replacement		2,639	—
Bayshore & Geary Corridor		4,893	—
Light rail vehicles		325	2,633
Others		10,168	4,320
	$	282,779	190,157

(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, 2004 and 2003, no bonds were outstanding under the TIP.

(Dollars in thousands, unless otherwise noted)

MUNI entered into a lease-purchase agreement with System Finance Corporation for 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 2004 were $163 and $10, respectively. As of June 30, 2004, the future annual debt service on the capital lease is as follows:

		Principal payment		Interest
Fiscal year ending June 30:				
2005	$	168		4
Total		168	$	4
Less current portion		(168)		
Long-term portion	$	—		

(7) Employee Benefit Plans

(a) *Retirement Plan Description and Funding Policy*

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 provides 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.

Contributions are made to the basic plan by both MUNI and its employees. Employee contributions are mandatory. Employee contribution rates for 2004 and 2003 varied from 7.5% to 8% as a percentage of covered payroll. MUNI is required to contribute at an actuarially determined rate. No MUNI contributions were required for 2004 and 2003 as the actuarially determined contribution rate as a percentage of covered payroll was 0%. MUNI's contributions to the Retirement System on behalf of its employees amounted to $8,753 and $16,786 for the years ended June 30, 2004 and 2003, respectively. Effective in 2004, the full 7.5% employee contribution was paid by the employees with the exception of transit operators. Thus, MUNI retirement costs on behalf of its employees were reduced 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 7.5% to 8.0% of covered payroll. MUNI's contributions in 2004 and 2003 were equal to the 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.

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, 2004 and 2003 were $41,625 and $38,324, respectively. Included in these amounts are $11,109 and $9,525 for 2004 and 2003, respectively, to provide postretirement healthcare benefits for retired employees. MUNI's liability for postretirement healthcare benefits is limited to its annual contribution.

(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 for operating and capital needs, which amounted to $8.6 million and $8.7 in fiscal years 2004 and 2003, respectively.

(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, 2004 and 2003 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.

(Dollars in thousands, unless otherwise noted)

Changes in the balances of claims liabilities and workers' compensation liabilities for the years ended June 30, 2004 and 2003 are as follows:

		2004	2003
Accrued claims liabilities, beginning of fiscal year	$	26,435	29,911
Incurred claims and changes in estimates		11,577	3,538
Claims payments		(7,667)	(7,014)
Accrued claims liabilities, end of fiscal year	$	30,345	26,435
Accrued workers' compensation, beginning of fiscal year	$	97,663	82,342
Incurred workers' compensation and changes in estimates		30,434	34,982
Workers' compensation payments		(20,917)	(19,661)
Accrued workers' compensation, end of fiscal year	$	107,180	97,663

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 for the years ended June 30, 2004 and 2003.

(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 $312 to fund additional interest expense for the year ended June 30, 2004 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, 2004, MUNI had approved capital grants with unused balances amounting to $232 million. Capital grants receivable as of June 30, 2004 totaled $55 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, 2004, MUNI had various operating grants receivable of $27.9 million. In 2004, MUNI's operating assistance includes BART ADA revenues of $1,383 and other state and local grants of $1,501 to fund project expenses that are operating in nature.

The capital and operating grants identified above include funds received and due from SFCTA. During the fiscal year ended June 30, 2004, new capital grants were approved by SFCTA in the amount of $62.5 million and payments received by MUNI for capital grants totaled $116.4 million. As of June 30, 2004, MUNI had funds due from SFCTA for capital grants in the amount of $35.8 million. Similarly, MUNI receives operating grants from SFCTA. During the fiscal year ended June 30, 2004, SFCTA approved new operating grants in the amount of $15.8 million and payments received by MUNI totaled $12.8 million. As of June 30, 2004, MUNI had $5.09 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 in perpetuity for rail vehicle maintenance, operations, and other operational needs at a cost of $25.7 million. Such amount paid to Port was reflected as a special item, with the funding received from SFCTA as a capital contribution, in the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2001.

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 2005, 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 and 2003. The Port has procured the design and construction contract and has issued direction to proceed with Phase II to build the Illinois Street Bridge. The construction is expected to be completed in early 2006.

(Dollars in thousands, unless otherwise noted)

(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.

(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 2030. These agreements are accounted for as operating leases. Rent expense was $6,016 and $5,928 for the years ended June 30, 2004 and 2003, respectively.

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

Year ending June 30:		
2005	$	3,637
2006		1,060
2007		554
2008		510
2009		511
2010 – 2014		325
2015 – 2019		177
2020 – 2024		147
2025 – 2029		121
2030 – 2034		36
Total	$	7,078

(c) Other Commitments

As of June 30, 2004, MUNI has outstanding commitments of approximately $77,337 with third parties for various capital projects. Grant funding is available for the majority of this amount. MUNI also has outstanding commitments of approximately $8,005 with third parties for noncapital expenditures. Various local funding sources are used to finance these expenditures.

(Continued)

(Dollars in thousands, unless otherwise noted)

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, 2004 are as follows:

Tank Cleanup	$	35
Local Match CA 90-0498		32
Local Match CA 23-9008(92)		76
Diesel Bus Rehabilitation		43
Central Control and Revenue Center		150
Rail Replacement Program		1,139
Islais Creek Storage and Maintenance Facility		878
Local Match CA 90-0607		14
Local Match for Paratransit Program		112
	$	2,479

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 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, 2004 or 2003.

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 in fiscal year 2004 and 2003 amounted to $1.3 million.

As of June 30, 2004, the outstanding payments to be made on the sublease through 2027 are $308.2 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 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. 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.

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 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 for certain transaction expenses). The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2004 amounted to $126.

As of June 30, 2004, 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 $198.5 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; 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 2005 only. MUNI accrued $185 at June 30, 2004 as estimated costs under this program.

SUPPLEMENTAL SCHEDULES

SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Supplemental Schedule – Schedule of Net Assets

June 30, 2004

(In thousands)

	MUNI	SFMRIC	Eliminations	Total
Assets:				
Current assets:				
Deposits and investments with City Treasury	$ 16,700	—	—	16,700
Deposits and investments held outside City Treasury	100	—	—	100
Cash on hand	279	—	—	279
Receivables:				
Grants	42,253	—	—	42,253
Due from the San Francisco County Transportation Authority	40,863	—	—	40,863
Due from other City departments	1,903	—	—	1,903
Charges for services, net	4,321	—	—	4,321
Other	13,325	—	(24)	13,301
Total receivables	102,665	—	(24)	102,641
Inventories	39,153	—	—	39,153
Current deferred charges	—	—	—	—
Total current assets	158,897	—	(24)	158,873
Restricted assets:				
Deposits and investments with City Treasury:				
Transit Impact Development Fee	36,563	—	—	36,563
Other restricted investments	899	—	—	899
Deposits and investments held outside City Treasury	1	4,414	—	4,415
Interest receivable	—	19	—	19
Transit Impact Development Fee receivable, net	5,529	—	—	5,529
Total restricted assets	42,992	4,433	—	47,425
Noncurrent deferred charges	4,000	—	—	4,000
Capital assets	1,745,399	—	—	1,745,399
Total noncurrent assets	1,792,391	4,433	—	1,796,824
Total assets	$ 1,951,288	4,433	(24)	1,955,697

(Continued)

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION

Supplemental Schedule – Schedule of Net Assets

June 30, 2004

(In thousands)

	MUNI	SFMRIC	Eliminations	Total
Liabilities:				
Current liabilities:				
Due to other funds	$ 2,221	—	—	2,221
Accounts payable and accrued expenses	38,161	—	—	38,161
Accrued payroll	12,038	—	—	12,038
Accrued vacation and sick leave	12,264	—	—	12,264
Accrued workers' compensation	24,142	—	—	24,142
Accrued claims	10,861	—	—	10,861
Deferred revenue and other deferred credits	2,869	—	—	2,869
Current capital lease obligations	168	—	—	168
Total current liabilities	102,724	—	—	102,724
Current liabilities payable from restricted assets	902	63	(24)	941
Noncurrent liabilities:				
Accrued vacation and sick leave	9,271	—	—	9,271
Accrued workers' compensation	83,038	—	—	83,038
Accrued claims	19,484	—	—	19,484
Deferred revenue and other deferred credits	39,687	—	—	39,687
Long-term capital lease obligations	—	—	—	—
Total noncurrent liabilities	151,480	—	—	151,480
Total liabilities	$ 255,106	63	(24)	255,145
Net assets:				
Invested in capital assets, net of related debt	$ 1,745,231	—	—	1,745,231
Restricted	42,090	4,370	24	46,484
Unrestricted	(91,139)	—	(24)	(91,163)
Total net assets	$ 1,696,182	4,370	—	1,700,552

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

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

Year ended June 30, 2004

(In thousands)

	MUNI	SFMRIC	Eliminations	Total
Operating revenues:				
Passenger fares	$ 114,232	—	—	114,232
Advertising	11,606	—	—	11,606
Paratransit revenue	1,271	—	—	1,271
Charter service	23	—	—	23
Rental income	158	—	—	158
Other	27	—	—	27
Total operating revenues	127,317	—	—	127,317
Operating expenses:				
Personal services	376,033	—	—	376,033
Contractual services	18,844	—	—	18,844
Materials and supplies	24,525	—	—	24,525
Depreciation	81,464	—	—	81,464
Services from other City departments	21,798	—	—	21,798
General and administrative	28,016	35	—	28,051
Other operating expenses	2,406	—	—	2,406
Total operating expenses	553,086	35	—	553,121
Operating loss	(425,769)	(35)	—	(425,804)
Nonoperating revenues (expenses):				
Operating assistance:				
Department of Parking and Traffic	131,339	—	—	131,339
Federal	18,714	—	—	18,714
State and other grants	69,057	—	—	69,057
Transit Impact Development Fee, net of expenses	310	—	—	310
Capital reserve revenue	1,442	—	—	1,442
Interest income	984	(7)	—	977
Interest expense	(322)	—	—	(322)
Loss on disposal of capital assets	(721)	—	—	(721)
Capital assistance of SFMRIC to MUNI	74	(74)	—	—
Other, net	317	—	—	317
Total nonoperating revenues, net	221,194	(81)	—	221,113
Loss before capital contribution and transfers	(204,575)	(116)	—	(204,691)
Capital contributions:				
Federal	60,434	—	—	60,434
State and others	107,481	—	—	107,481
Total capital contributions	167,915	—	—	167,915
Transfers in:				
City and County of San Francisco – General Fund	99,576	—	—	99,576
San Francisco County Transportation Authority	15,818	—	—	15,818
San Francisco Public Works Department	303	—	—	303
San Francisco Parking & Traffic Department	992	—	—	992
Total transfers in	116,689	—	—	116,689
Change in net assets	80,029	(116)	—	79,913
Total net assets – beginning	1,616,153	4,486	—	1,620,639
Total net assets – ending	$ 1,696,182	4,370	—	1,700,552

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, 2004

(In thousands)

	Authorized grants as of July 1, 2003	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2004	Amounts not expended as of June 30, 2004	Grants receivable as of June 30, 2004
Capital grants:							
Construct Islais Creek Facility	$ 2,467	—	—	—	2,467	(2,467)	—
Construct Islais Creek	—	4,918	(120)	—	4,798	(4,798)	—
LRV Purchase	974	327	—	—	1,301	(1,184)	117
Section 9 Fiscal Year 1987/88	—	—	—	—	—	—	—
Section 9 Fiscal Year 1989/90	21	—	—	—	21		21
Section 9 Fiscal Year 1990/91	367	—	(173)	—	194	(189)	5
Section 9 Fiscal Year 1992/93	47	—	(47)	—	—		—
Section 9 Fiscal Year 1993/94	737	—	(207)	—	530	(530)	—
Section 9 Fiscal Year 1994/95	350	—	(96)	—	254	(250)	4
Section 9 Fiscal Year 1995/96	1,168	10	(625)	—	553	(341)	212
Section 9 Fiscal Year 1997/98	—	—	—	—	—		—
Section 9 Fiscal Year 1998/99	7,943		(663)	(3,518)	3,762	(3,699)	63
Section 9 Fiscal Year 1999/00	29,981	995	(13,127)	—	17,849	(10,194)	7,655
Section 9 Fiscal Year 2000/01	23,223	672	(17,707)	—	6,188	(3,847)	2,341
Section 9 Fiscal Year 2001/02	63,007	—	(9,366)	(681)	52,960	(50,841)	2,119
Section 9 Fiscal Year 2002/03	30,361	—	—	(4,000)	26,361	(26,081)	280
Section 9 Fiscal Year 2003/04	—	27,321	—	—	27,321	(27,321)	—
Section 3 -Central Control Facility	—	990	—	—	990	(953)	37
Section 3 New Central Subway	—	1,475	(809)	—	666	(666)	—
Section 3 Third Street Metro East	—	50,055	(15,967)	—	34,088	(29,948)	4,140
Radio Replacement	—	207	—	—	207	(207)	—
Total capital grants	$ 160,646	86,970	(58,907)	(8,199)	180,510	(163,516)	16,994
Pass through grants:							
Transbay Terminal	$ —	7,841	(592)	—	7,249	(7,159)	90
Operating grants:							
Operating assistance	$ 17,527	13,681	(17,527)	—	13,681	—	13,681
Additional operating assistance	—	4,000	—	—	4,000	—	4,000
SRTP-CPT529 and 473	82	124	—	(82)	124	(15)	109
Federal Disaster Relief – Earthquake:							
FEMA – Geneva Building Demolition	18	—	—	(18)	—	—	—
Treasure Island	78	230	(308)	—	—	—	—
Emergency Preparedness	30	—	(30)	—	—	—	—
Total operating grants	$ 17,735	18,035	(17,865)	(100)	17,805	(15)	17,790

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, 2004

(In thousands)

	Authorized grants as of July 1, 2003	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2004	Amounts not expended as of June 30, 2004	Grants receivable as of June 30, 2004
Capital grants:							
F-Market Street Thoroughfare	$ 2,463	—	—	(2,463)	—	—	—
Muni Metro Extension	2,481	—	—	(2,481)	—	—	—
Transit Signal Preemtion	—	191	—	—	191	—	191
Total capital grants	$ 4,944	191	—	(4,944)	191	—	191

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, 2004

(In thousands)

	Authorized grants as of July 1, 2003	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2004	Amounts not expended as of June 30, 2004	Grants receivable as of June 30, 2004
Capital grants:							
Bridge toll:							
Accessible Vans	$ —	—	—	—	—	—	—
Cable Car Renovation	91	—	(24)	—	67	(67)	—
F-Embarcadero Extension	2,277	—	(993)	—	1,284	(1,284)	—
Motor Coach Replacement	3,092	—	(472)	—	2,620	(1,552)	1,068
Overhead Reconstruction	2,821	—	(1,109)	—	1,712	(795)	917
Tract Replacement	1,180	—		—	1,180	(1,129)	51
Trolley Bus Replacement	60	—	(60)	—	—		—
Total capital grants	$ 9,521	—	(2,658)	—	6,863	(4,827)	2,036
Pass Through Grants:							
Transbay Terminal	—	747	(357)	—	390	(337)	53
Operating grants:							
AB1107 Sales Tax	$ 2,492	28,526	(28,322)	—	2,696	—	2,696
State Transit Assistance	3,646	12,033	(13,326)	—	2,353	—	2,353
Transportation Development Act	—	27,430	(27,430)	—	—	—	—
Total operating grants	$ 6,138	67,989	(69,078)	—	5,049	—	5,049

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, 2004

(In thousands)

		Authorized grants as of July 1, 2003	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2004	Amounts not expended as of June 30, 2004	Grants receivable as of June 30, 2004
Capital grants:								
3rd Light Rail-Preliminary Design	$	125,303	54,120	(90,443)	(12,000)	76,980	(43,279)	33,701
Articulated Trolley Bus Purchase		5,995	5,510	(7,610)	(853)	3,042	(2,572)	470
Bus Stop Improvements		65	—	(65)	—	—	—	—
Central Subway		5,000	—	(4,063)	—	937	(529)	408
Diesel Bus Purchase		5,443	—	(255)	(2,022)	3,166	(3,166)	—
Escalator Replacement Study		110	—	—	—	110	(110)	—
F Embarcadero Extension		5,871		(1,486)	(3,316)	1,069	(909)	160
Facilities Rehabilitation and Improvement		10,750	2,240	(3,039)	(2,874)	7,077	(6,586)	491
Financial Capacity Study		240	—	—	—	240	(240)	—
Fleet Plan Update		118		—	(118)	—	—	—
F-Market PCC Rehabilitation		83	—	(83)	—	—	—	—
F-Market Transit Thoroughfare		4	—	—	(4)	—	—	—
Forest Hill Seepage and Seismic		12	—	—	(12)	—	—	—
Geneva Building Demolition		346	—	(30)	—	316	(242)	74
Historic Trolley Shed		91	—	—	—	91	(91)	—
Land Acquisition – Western Pacific Railroad Yard		300	—	—	(300)	—	—	—
LRV Modification		96	—	—	(96)	—	—	—
LRV Purchase		12,217	—	(7,560)	(4,657)	—	—	—
Metro East LRV Facility		2	—	—	—	2	(2)	—
Mission Hotel Development		500	—	—	(500)	—	—	—
Muni Metro Turnback		5,495	—	—	(5,495)	—	—	—
Rail Replacement/Maintenance Equipment		282	—	(155)	—	127	(127)	—
Rail/OH Infrastructure Study		3	—	—	(3)	—	—	—
Streetcar Rehabilitation		940	449	(85)	—	1,304	(1,177)	127
Trolley Overhead Reconstruction		—	—	—	—	—	—	—
Wood/Potrero Roof Replacement		1,268	—	(19)	(363)	886	(886)	—
Woods Division Renovation		2,080	—	(38)	—	2,042	(1,968)	74
Woods Seismic Study		33	—	(1)	(32)	—	—	—
Cowcap 2002 Outstanding Receivable		223	223	(223)	—	223	—	223
Auto Vehicle Location & ETI Bus Lifts		2,068	—	(1,301)	—	767	(731)	36
Facilities Preservation Improvement Program-FPIP		2,637	—	—	(1,452)	1,185	(1,185)	—
Total capital grants	$	187,575	62,542	(116,456)	(34,097)	99,564	(63,800)	35,764

See accompanying independent auditors' report.

(Continued)

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY
IMPROVEMENT CORPORATION

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2004

(In thousands)

	Authorized grants as of July 1, 2003	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2004	Amounts not expended as of June 30, 2004	Grants receivable as of June 30, 2004
Operating grants:							
F-Line Operations and Maintenance	$ 25	1,131	(1,156)	—	—	—	—
Graffiti Preventions	273	127	(220)	(11)	169	(46)	123
Capital Grant Staffing	534	360	(524)	(290)	80	(9)	71
Muni Metro Extension Operations and Maintenance	79	3,921	(4,000)	—	—	—	—
Paratransit Contract	1,479	9,670	(6,314)	—	4,835	—	4,835
Transit Preferential Streets	52	62	(92)	(1)	21	(7)	14
Trolley Bus Lifts Operations and Maintenance	647	610	(546)	(440)	271	(215)	56
Total operating grants	$ 3,089	15,881	(12,852)	(742)	5,376	(277)	5,099

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, 2004

(In thousands)

	Authorized grants as of July 1, 2003	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2004	Amounts not expended as of June 30, 2004	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	—	—	—	67	(18)	49
Bus Signal & Communication Equipments	—	150	(128)	—	22	(22)	—
Steuart and Mission Site	—	620	(620)	—	—	—	—
Lighting Retrofit	150	—	—	—	150	(150)	—
Total capital grants	$ 237	770	(748)	—	259	(210)	49

See accompanying independent auditors' report.