



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

Financial Statements
and Supplemental Schedules

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

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Three Embarcadero Center
San Francisco, CA 94111

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 July 1, 2002, as of and for the years ended June 30, 2003 and 2002, 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. 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, 2003 or 2002, 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, 2003 and 2002, 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.

The management's discussion and analysis on pages 2 through 9 is not a required part of the 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.

KPMG LLP

January 30, 2004



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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, 2003 and 2002. 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 \$1,620,639.
- MUNI and SFMRIC's total net assets increased by \$67,499. 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 10 through 14 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 15), 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 10 and 11) 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, 2003 and 2002.

The statements of revenues, expenses, and changes in net assets (found on page 12) 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 this statement for some items that will result in cash flows in future fiscal periods.

The statements of cash flows (found on pages 13 and 14) 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

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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 15 through 30 of this report.

Other Information. The supplemental schedules found on pages 31 through 39 of this report are presented for the purpose of additional analysis and are not a required part of the financial statements.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of MUNI and SFMRIC, assets exceeded liabilities by \$1,620,639 at the close of the most recent fiscal year.

Summary of Net Assets

June 30, 2003, 2002 and 2001

(In thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Assets:			
Total current assets	\$ 154,207	165,715	144,175
Total restricted assets	56,208	62,376	69,647
Noncurrent deferred charges	4,000	4,000	4,000
Capital assets	<u>1,652,658</u>	<u>1,559,864</u>	<u>1,401,069</u>
Total assets	<u>1,867,073</u>	<u>1,791,955</u>	<u>1,618,891</u>
Liabilities:			
Total current liabilities	108,238	111,539	112,709
Current liabilities payable from restricted assets	904	923	919
Total noncurrent liabilities	<u>137,292</u>	<u>126,353</u>	<u>78,314</u>
Total liabilities	<u>246,434</u>	<u>238,815</u>	<u>191,942</u>
Net assets:			
Invested in capital assets, net of related debt	1,652,327	1,559,864	1,401,069
Restricted net assets	55,304	61,453	68,728
Unrestricted net assets	<u>(86,992)</u>	<u>(68,177)</u>	<u>(42,848)</u>
Total net assets	<u>\$ 1,620,639</u>	<u>1,553,140</u>	<u>1,426,949</u>

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(Dollars in thousands, unless otherwise noted)

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 20 through 22.

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 years 2002 and 2001, 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.

Fiscal Year 2002

MUNI and SFMRIC's net assets increased by \$126,191 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 new rolling stock and rehabilitation of historic vehicles, including cable cars, and capitalization of infrastructure investments.

Almost all of MUNI's net assets (\$1,559,864 as of June 30, 2002) reflect its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, and construction-in-progress). The value of these assets of \$2,002,369 is offset by accumulated depreciation and amortization of \$442,505. More information can be found in note 5 on pages 20 through 22.

MUNI and SFMRIC use these assets to provide services. Although the investment is shown reported net of related debt, as of June 30, 2002 and 2001, no related debt was outstanding.

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

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Summary of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003, 2002 and 2001

(In thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:			
Total operating revenues	\$ 109,490	107,455	113,196
Total nonoperating revenues, net	210,060	220,453	197,850
Capital contributions:			
Federal	80,454	163,071	192,508
State and others	79,818	52,992	98,568
Total capital contributions	160,272	216,063	291,076
Total operating transfers in	116,984	111,138	114,792
Total revenues and transfers in	596,806	655,109	716,914
Expenses:			
Total operating expenses	529,307	528,725	468,049
Operating transfers out	—	193	—
Special item – property rights in perpetuity with San Francisco Port Commission	—	—	25,700
Total expenses and transfers out	529,307	528,918	493,749
Changes in net assets	67,499	126,191	223,165
Total net assets – beginning	1,553,140	1,426,949	1,203,784
Total net assets – ending	\$ 1,620,639	1,553,140	1,426,949

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

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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.

Fiscal Year 2002

Total revenues for the year ended June 30, 2002 were \$655,109. This is \$61,805 lower than for the previous year, due primarily to a decrease in operating revenues and capital contributions.

Operating revenues slightly decreased by \$5,741, or 5%, which reflects reduced ridership because of the economic slowdown and drop in tourism, which was exacerbated by the events of September 11, 2001. Nonoperating revenues increased compared to the previous year (\$22,603, or 11%). 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-related revenues increased as a result of stepped-up collection efforts and increases in fines levied for parking violations. Capital contributions decreased by \$75,013 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 decreased by \$3,847, or 3%, due primarily to a reduction in the transfer from the city's General Fund. The city's General Fund revenues, including business taxes, hotel, and sales taxes, were also severely affected by the recession and decline in tourism.

Total expenditures for the year ended June 30, 2002 were \$528,918. This is \$35,169 higher than for the previous year, due primarily to contractual increases in salaries and fringe benefits, additional claims cost for workers' compensation, higher expenses for professional services, and depreciation for newly acquired rolling stock acquired in recent years. The workers' compensation reserve increased by \$14,952 due primarily to the increased severity in the claims and an increase in claims reserves.

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Capital Assets and Debt Administration

Capital Assets. MUNI and SFMRIC's investment in capital assets amounts to \$1,652,658, net of accumulated depreciation at June 30, 2003. This investment includes land, building structures and improvements, equipment, infrastructure, and construction-in-progress. The capital assets increased by \$92,794, 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)

	<u>Balance, June 30, 2003</u>	<u>Balance, June 30, 2002</u>	<u>Balance, June 30, 2001</u>
Capital assets not being depreciated:			
Land	\$ 18,481	18,481	18,537
Construction-in-progress	190,157	291,645	354,426
Total capital assets not being depreciated	<u>208,638</u>	<u>310,126</u>	<u>372,963</u>
Capital assets being depreciated:			
Building structures and improvements	237,039	231,967	234,944
Equipment	1,002,036	814,000	665,898
Infrastructure	693,029	646,276	593,562
Total capital assets being depreciated	<u>1,932,104</u>	<u>1,692,243</u>	<u>1,494,404</u>
Less accumulated depreciation for:			
Building structures and improvements	87,442	81,413	78,272
Equipment	214,108	195,944	249,363
Infrastructure	186,534	165,148	138,663
Total accumulated depreciation	<u>488,084</u>	<u>442,505</u>	<u>466,298</u>
Total capital assets being depreciated, net	<u>1,444,020</u>	<u>1,249,738</u>	<u>1,028,106</u>
Total capital assets, net	<u>\$ 1,652,658</u>	<u>1,559,864</u>	<u>1,401,069</u>

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.

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- 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.

Significant capital asset events in Fiscal Year 2002 included:

- Additional renovation and improvements at Woods Division facilities.
- Acquisition of 145 motor coaches and 24 light rail vehicles.
- Completion and capitalization of the Automated Train Control System.

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 2003 amounted to \$1.3 million.

Long-Term Debt. MUNI has long-term outstanding debt at year-end of \$331 for a lease-purchase agreement for information technology network upgrade.

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, 2003 and 2002.

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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 the 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 salary expenditures and fuel costs. These economic difficulties were considered in preparing MUNI's budget for Fiscal Year 2004. In order to balance the budget, proposed parking fine rates and fixed route fare increase initiatives were approved and went into effect on April 1 and September 1, 2003, respectively.

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 required supplemental information are presented in accordance with the accounting and reporting standards known as "generally accepted accounting principles." Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to Virginia Harrington, 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.

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Statements of Net Assets

June 30, 2003 and 2002

(In thousands)

	<u>2003</u>	<u>2002</u>
Assets:		
Current assets:		
Deposits and investments with City Treasury	\$ —	74,329
Deposits and investments held outside City Treasury	100	100
Cash on hand	333	488
Receivables:		
Grants	41,322	36,452
Due from the San Francisco County Transportation Authority	59,352	10,445
Due from other City departments	1,043	2,000
Charges for services (net of allowance for doubtful accounts of \$36 and \$34 in 2003 and 2002, respectively)	2,311	4,718
Other	12,509	6,661
Total receivables	<u>116,537</u>	<u>60,276</u>
Inventories	36,250	29,798
Current deferred charges	987	724
Total current assets	<u>154,207</u>	<u>165,715</u>
Restricted assets:		
Deposits and investments with City Treasury:		
Transit Impact Development Fee	44,794	50,324
Other restricted investments	820	836
Deposits and investments held outside City Treasury	4,593	4,787
Interest receivable	18	—
Transit Impact Development Fee receivable (net of allowance of \$0 in 2003 and \$0 in 2002)	5,983	6,429
Total restricted assets	<u>56,208</u>	<u>62,376</u>
Noncurrent deferred charges	4,000	4,000
Capital assets	<u>1,652,658</u>	<u>1,559,864</u>
Total noncurrent assets	<u>1,712,866</u>	<u>1,626,240</u>
Total assets	<u>\$ 1,867,073</u>	<u>1,791,955</u>

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	<u>2003</u>	<u>2002</u>
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 37,380	39,913
Accrued payroll	22,374	21,170
Accrued vacation and sick leave	12,299	12,025
Accrued workers' compensation	22,565	19,852
Accrued claims	10,405	13,197
Deferred revenue and other deferred credits	3,052	5,382
Current capital lease obligations	163	—
Total current liabilities	<u>108,238</u>	<u>111,539</u>
Current liabilities payable from restricted assets	<u>904</u>	<u>923</u>
Noncurrent liabilities:		
Accrued vacation and sick leave	9,120	8,958
Accrued workers' compensation	75,098	62,490
Accrued claims	16,030	16,714
Deferred revenue and other deferred credits	36,876	38,191
Long-term capital lease obligations	168	—
Total noncurrent liabilities	<u>137,292</u>	<u>126,353</u>
Total liabilities	<u>\$ 246,434</u>	<u>238,815</u>
Net assets:		
Invested in capital assets, net of related debt	1,652,327	1,559,864
Restricted	55,304	61,453
Unrestricted	<u>(86,992)</u>	<u>(68,177)</u>
Total net assets	<u>\$ 1,620,639</u>	<u>1,553,140</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses,
and Changes in Net Assets

Years ended June 30, 2003 and 2002

(In thousands)

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Passenger fares	\$ 97,764	97,162
Advertising	10,393	9,067
Paratransit revenue	1,071	1,010
Charter service	16	24
Rental income	160	160
Other	86	32
Total operating revenues	<u>109,490</u>	<u>107,455</u>
Operating expenses:		
Personal services	380,377	368,604
Contractual services	16,718	21,268
Materials and supplies	23,718	36,182
Depreciation	67,099	55,336
Services from other City departments	21,681	21,329
General and administrative	14,101	20,979
Other operating expenses	5,613	5,027
Total operating expenses	<u>529,307</u>	<u>528,725</u>
Operating loss	<u>(419,817)</u>	<u>(421,270)</u>
Nonoperating revenues (expenses):		
Operating assistance:		
Department of Parking and Traffic	113,094	114,254
Federal	17,955	3,363
State and other grants	73,884	93,129
Transit Impact Development Fee, net of expenses	2,854	8,329
Capital reserve revenue	1,315	15
Interest income	1,926	3,901
Interest expense	(488)	—
Loss on disposal of capital assets	(501)	(2,256)
Other, net	21	(282)
Total nonoperating revenues, net	<u>210,060</u>	<u>220,453</u>
Loss before capital contributions and transfers	<u>(209,757)</u>	<u>(200,817)</u>
Capital contributions:		
Federal	80,454	163,071
State and others	79,818	52,992
Total capital contributions	<u>160,272</u>	<u>216,063</u>
Transfers in:		
City and County of San Francisco – General Fund	101,274	94,305
San Francisco County Transportation Authority	15,710	16,833
Total transfers in	<u>116,984</u>	<u>111,138</u>
Transfers out:		
City and County of San Francisco – General Fund	—	(193)
Net transfers	<u>116,984</u>	<u>110,945</u>
Change in net assets	<u>67,499</u>	<u>126,191</u>
Total net assets – beginning	<u>1,553,140</u>	<u>1,426,949</u>
Total net assets – ending	<u>\$ 1,620,639</u>	<u>1,553,140</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, 2003 and 2002
(In thousands)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from passengers and service contracts	\$ 126,674	120,817
Cash paid to employees for services	(363,635)	(350,612)
Cash paid to suppliers for goods and services	(78,674)	(86,835)
Cash paid for judgment and claims	(6,963)	(7,941)
Cash paid for quasi-external transactions	(21,950)	(20,518)
Net cash used in operating activities	<u>(344,548)</u>	<u>(345,089)</u>
Cash flows from noncapital financing activities:		
Operating grants	180,438	215,057
Transfers in	116,984	111,138
Transfers out	—	(193)
Transit Impact Development Fee received, net of expenses	3,199	7,062
Other noncapital decreases	(171)	(232)
Net cash provided by noncapital financing activities	<u>300,450</u>	<u>332,832</u>
Cash flows from capital and related financing activities:		
Capital grants	125,920	253,311
Proceeds from sale of capital assets	661	(15)
Breda Lease receipts	—	388,156
Breda Lease payments	—	(352,635)
Acquisition of capital assets	(162,756)	(223,594)
Other capital decreases	(1,538)	—
Net cash (used in) provided by capital and related financing activities	<u>(37,713)</u>	<u>65,223</u>
Cash flows from investing activities:		
Purchases of investments with trustees – restricted	(9,013)	(25,339)
Proceeds from sale of investments with trustees – restricted	4,600	25,339
Interest income received	2,055	4,199
Interest expense paid	(488)	—
Net cash (used in) provided by investing activities	<u>(2,846)</u>	<u>4,199</u>
Net (decrease) increase in cash and cash equivalents	<u>(84,657)</u>	<u>57,165</u>
Cash and cash equivalents – beginning of year	<u>130,864</u>	<u>73,699</u>
Cash and cash equivalents – end of year	<u>\$ 46,207</u>	<u>130,864</u>

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

Statements of Cash Flows

Years ended June 30, 2003 and 2002

(In thousands)

	<u>2003</u>	<u>2002</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (419,817)	(421,270)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	67,099	55,336
Provision for doubtful accounts	2	14
Changes in operating assets and liabilities:		
Receivables, net	2,901	(396)
Inventories	(6,452)	3,993
Deferred charges	(263)	(133)
Accounts payable	(734)	(1,337)
Accrued payroll and accrued expenses	985	2,173
Accrued vacation and sick leave	436	868
Accrued workers' compensation	15,321	14,952
Accrued claims	(2,276)	2,697
Deferred revenues and other deferred credits	(1,750)	(1,986)
Net cash used in operating activities	\$ <u>(344,548)</u>	<u>(345,089)</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Deposits and investments with City Treasury:		
Unrestricted	\$ —	74,329
Restricted	45,614	51,160
Deposits and investments held outside City Treasury:		
Unrestricted	433	588
Restricted	160	4,787
Total cash and cash equivalents, end of year	\$ <u>46,207</u>	<u>130,864</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2003 and 2002

(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 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 Transit 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 2003, these financial statements only reflect the operations and financial position of MUNI and SFMRIC for both 2003 and 2002.

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.

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Notes to Financial Statements

June 30, 2003 and 2002

(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 statement 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, \$160 as of June 30, 2003 and \$4,787 as of June 30, 2002 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.

Re-built inventory items include motors, transmission, and other smaller parts that are removed from existing coaches that are overhauled and repaired. Previously, the actual cost of in-house re-built was expensed as incurred as labor, materials and overhead at the time the item was repaired, and not classified as inventory cost. Effective Fiscal Year 2003, rebuilt parts are now included in the valuation of inventory. The rebuilt parts were difficult to track in the previous inventory system, but are easier to track in the inventory system implemented in Fiscal Year 2003. The rebuilt inventory in Fiscal Year 2003 amounted to \$1.1 million, which is approximately 3% of total inventory.

(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.

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June 30, 2003 and 2002

(Dollars in thousands, unless otherwise noted)

(f) *Construction-in-Progress*

Construction-in-progress represents the design and construction costs of various uncompleted projects. As facilities are accepted by 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 10 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 is generally used as local match to the federal capital assistance. 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.

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June 30, 2003 and 2002

(Dollars in thousands, unless otherwise noted)

(i) Operating Assistance Grants

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

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.

(j) Transit Impact Development Fees

Transit Impact Development Fees (TIDF) are collected by MUNI and 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

In previous years, a portion of token revenue was deferred until the tokens were used by the patrons. Based on statistical data, there was an increasing trend of deferred token revenue due to the fact that many tokens sold are not returned to the system. Effective Fiscal Year 2003, MUNI changed the accounting policy on how token revenues are recognized. All of the token revenues are now recognized at the time the tokens are sold. The adoption of this policy increased MUNI revenues by \$1.5 million for the year ended June 30, 2003, reflecting the recognition of the sale of tokens.

(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.

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Notes to Financial Statements

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(Dollars in thousands, unless otherwise noted)

(3) Net Assets

Net assets as of June 30, 2003 and 2002 consist of the following:

	<u>2003</u>	<u>2002</u>
Restricted assets:		
Deposits and investments with City Treasury	\$ 45,614	51,160
Deposits and investments outside City Treasury	4,593	4,787
Receivables	6,001	6,429
Total restricted assets	<u>56,208</u>	<u>62,376</u>
Restricted liabilities of:		
SFMRIC	(56)	(81)
TIDF	(28)	(6)
Others	(820)	(836)
Total restricted liabilities	<u>(904)</u>	<u>(923)</u>
Net restricted assets	<u>\$ 55,304</u>	<u>61,453</u>
Net assets:		
Restricted:		
Transit Impact Development Fee	\$ 50,749	56,672
SFMRIC	4,537	4,781
Other	18	—
Total restricted net assets	55,304	61,453
Unrestricted	(86,992)	(68,177)
Invested in capital assets	<u>1,652,327</u>	<u>1,559,864</u>
Net assets	<u>\$ 1,620,639</u>	<u>1,553,140</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 custodial risk associated with the City's pooled deposits and investments. As of June 30, 2003 and 2002, MUNI and SFMRIC's unrestricted deposits and investments were \$433 and \$74,917, respectively. The reduction of MUNI's unrestricted deposits and investments and the related increase in MUNI's receivable from San Francisco Transportation Authority (SFCTA) resulted from a change in SFCTA's funding source and a change in the timing of payments from that source.

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Notes to Financial Statements

June 30, 2003 and 2002

(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, 2003 and 2002, MUNI and SFMRIC had deposits and investments with the trustee of \$4,593 and \$4,787, respectively. Of the deposits, \$160 and \$4,787 as of June 30, 2003 and 2002, 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, 2003 and 2002 are as follows:

	<u>Balance, July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2003</u>
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	<u>310,126</u>	<u>160,272</u>	<u>(261,760)</u>	<u>208,638</u>
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	<u>1,692,243</u>	<u>262,560</u>	<u>(22,699)</u>	<u>1,932,104</u>
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	<u>442,505</u>	<u>67,099</u>	<u>(21,520)</u>	<u>488,084</u>
Total capital assets being depreciated, net	<u>1,249,738</u>	<u>195,461</u>	<u>(1,179)</u>	<u>1,444,020</u>
Total capital assets, net	<u>\$ 1,559,864</u>	<u>355,733</u>	<u>(262,939)</u>	<u>1,652,658</u>

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Notes to Financial Statements

June 30, 2003 and 2002

(Dollars in thousands, unless otherwise noted)

	<u>Balance, July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2002</u>
Capital assets not being depreciated:				
Land	\$ 18,537	—	(56)	18,481
Construction-in-progress	354,426	214,864	(277,645)	291,645
Total capital assets not being depreciated	372,963	214,864	(277,701)	310,126
Capital assets being depreciated:				
Building structures and improvements	234,944	22,631	(25,608)	231,967
Equipment	665,898	234,338	(86,236)	814,000
Infrastructure	593,562	52,714	—	646,276
Total capital assets being depreciated	1,494,404	309,683	(111,844)	1,692,243
Less accumulated depreciation for:				
Building structures and improvements	78,272	3,141	—	81,413
Equipment	249,363	25,710	(79,129)	195,944
Infrastructure	138,663	26,485	—	165,148
Total accumulated depreciation	466,298	55,336	(79,129)	442,505
Total capital assets being depreciated, net	1,028,106	254,347	(32,715)	1,249,738
Total capital assets, net	\$ <u>1,401,069</u>	<u>469,211</u>	<u>(310,416)</u>	<u>1,559,864</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 \$17,346 as of June 30, 2003.

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Construction-in-progress consists of the following projects as of June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Light rail vehicles	\$ 2,633	67,476
Third Street light rail	129,450	74,079
Articulated trolley coaches	34,691	94,449
Rail replacement	483	14,342
Metro Access Improvement	1,369	3,037
Cable Car Renovation	1,096	800
Islais Creek-Woods Annex	3,750	2,076
Trolley Overhead Reconstruction	5,185	3,732
Vehicle Scheduling System	1,549	361
Flynn Facility Lift Construction	1,050	476
Vehicle Inventory Management	2,618	1,495
Automatic Vehicle Location	1,259	136
Diesel Bus Procurement	704	10,205
Others	4,320	18,981
	<u>\$ 190,157</u>	<u>291,645</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 is 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, 2003 and 2002, no bonds were outstanding under the TIP.

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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 2003 were \$180 and \$6, respectively. As of June 30, 2003, the future annual debt service on the capital lease is as follows:

	<u>Principal payment</u>	<u>Interest</u>
Fiscal year ending June 30:		
2004	\$ 163	10
2005	168	4
Total	331	\$ 14
Less current portion	(163)	
Long-term portion	<u>\$ 168</u>	

(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 2003 and 2002 varied from 7% to 8% as a percentage of covered payroll. MUNI is required to contribute at an actuarially determined rate. No MUNI contributions were required for 2003 and 2002 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 \$16,786 and \$18,679 for the years ended June 30, 2003 and 2002, respectively. Due to certain bargaining agreements effective in 2003 which mandated certain groups of employees to contribute 2.75% of covered payroll as employee-paid employee contributions, MUNI's contributions to the Retirement System on behalf of some of its employees was reduced to 4.25% to 5.25% for 2003. For those groups of employees not mandated to contribute

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to the Retirement System, MUNI's contributions remained at 7.0% to 8.0% of covered payroll. MUNI's contributions in 2003 and 2002 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, 2003 and 2002 were \$38,324 and \$32,685, respectively. Included in these amounts are \$9,525 and \$5,634 for 2003 and 2002, 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. The City on behalf of MUNI is responsible for 11.6% of the net operating costs and administrative expenses of the PCJPB for operating and capital needs, which amounted to \$8.7 million in both fiscal years 2003 and 2002.

(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,

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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, 2003 and 2002 have been actuarially determined and include an estimate of incurred but not reported claims. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic social factors.

Changes in the balances of claims liabilities and workers' compensation liabilities for the years ended June 30, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Accrued claims liabilities, beginning of fiscal year	\$ 29,911	26,014
Incurred claims and changes in estimates	3,538	11,838
Claims payments	<u>(7,014)</u>	<u>(7,941)</u>
Accrued claims liabilities, end of fiscal year	<u>\$ 26,435</u>	<u>29,911</u>
Accrued workers' compensation, beginning of fiscal year	\$ 82,342	67,390
Incurred workers' compensation and changes in estimates	34,982	33,956
Workers' compensation payments	<u>(19,661)</u>	<u>(19,004)</u>
Accrued workers' compensation, end of fiscal year	<u>\$ 97,663</u>	<u>82,342</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 for the years ended June 30, 2003 and 2002.

(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 \$482 to fund additional interest expense for the year ended June 30, 2003 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, 2003, MUNI had approved capital grants with unused balances amounting to \$288.1 million. Capital grants receivable as of June 30, 2003 totaled \$74.8 million.

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

Notes to Financial Statements

June 30, 2003 and 2002

(Dollars in thousands, unless otherwise noted)

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, 2003, MUNI had various operating grants receivable of \$25.9 million. In 2003, MUNI's operating assistance includes BART ADA revenues of \$1,282 and other state and local grants of \$1,585 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, 2003, new capital grants were approved by SFCTA in the amount of \$122.8 million and payments received by MUNI for capital grants totaled \$22.7 million. As of June 30, 2003, MUNI had funds due from SFCTA for capital grants in the amount of \$57.2 million. Similarly, MUNI receives operating grants from SFCTA. During the fiscal year ended June 30, 2003, SFCTA approved new operating grants in the amount of \$16.2 million and payments received by MUNI totaled \$13.6 million. As of June 30, 2003, MUNI had \$2.1 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 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 2004, 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 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, 2003 and 2002. The Port is currently in the selection process for procuring the design and construction contract to build the Illinois Street Bridge.

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IMPROVEMENT CORPORATION**

Notes to Financial Statements

June 30, 2003 and 2002

(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 2032. These agreements are accounted for as operating leases. Rent expense was \$5,928 and \$6,000 for the years ended June 30, 2003 and 2002, respectively.

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

Year ending June 30:		
2004	\$	4,908
2005		2,543
2006		557
2007		49
2008		24
2009 – 2013		121
2014 – 2018		121
2019 – 2023		121
2024 – 2028		121
2029 – 2032		49
Total	\$	<u>8,614</u>

(c) Other Commitments

As of June 30, 2003, MUNI has outstanding commitments of approximately \$95,868 with third parties for various capital projects. Grant funding is available for the majority of this amount. MUNI also has outstanding commitments of approximately \$6,994 with third parties for noncapital expenditures. Various local funding sources are used to finance these expenditures.

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Notes to Financial Statements

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(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, 2003 are as follows:

Tank Cleanup	\$ 35
Local Match CA 90-0498	32
MUNI Metro Accessibility Improvements	18
Local Match CA 23-9008(92)	80
Diesel Bus Rehabilitation	43
Central Control and Revenue Center	150
Rail Replacement Program	1,139
Islais Creek Storage and Maintenance Facility	975
Local Match CA 90-0607	14
Local Match for Paratransit Program	112
	\$ 2,598

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.

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

Notes to Financial Statements

June 30, 2003 and 2002

(Dollars in thousands, unless otherwise noted)

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, 2003 or 2002.

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 2003 amounted to \$1.3 million.

As of June 30, 2003, the outstanding payments to be made on the sublease through 2027 are \$322.8 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.

(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% and 1-1/2% 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 for the Wellness Program is valid through fiscal year 2005 only. MUNI accrued \$561 at June 30, 2003 as estimated cost under this program.

**SAN FRANCISCO MUNICIPAL RAILWAY AND
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IMPROVEMENT CORPORATION**

Notes to Financial Statements

June 30, 2003 and 2002

(Dollars in thousands, unless otherwise noted)

(16) Subsequent Event (Unaudited)

Leveraged Lease-Leaseback of Breda Vehicles – 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-leaseback transaction over 21 Breda light rail vehicles (the Tranche 2 Equipment). The transaction was structured as a head lease of the Tranche 2 Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Tranche 2 Equipment back from such trust. The sublease provides MUNI with an option to purchase the Tranche 2 Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Tranche 2 Equipment and is obligated to insure and maintain the Tranche 2 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 will record deferred revenue in fiscal year 2004 of between \$4.7 and \$5.0 million for the difference between the amount received of \$72.6 million and the amount paid to the escrows of \$67.5 million (minus certain transaction expenses). The deferred revenue will be amortized over the life of the sublease.

As of September 30, 2003, 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 Tranche 2 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; 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.

SUPPLEMENTAL SCHEDULES

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

Supplemental Schedule – Schedule of Net Assets

June 30, 2003

(In thousands)

	<u>MUNI</u>	<u>SFMRIC</u>	<u>Eliminations</u>	<u>Total</u>
Assets:				
Current assets:				
Deposits and investments with City				
Treasury	\$ —	—	—	—
Deposits and investments held outside				
City Treasury	100	—	—	100
Cash on hand	333	—	—	333
Receivables:				
Grants	41,322	—	—	41,322
Due from the San Francisco County				
Transportation Authority	59,352	—	—	59,352
Due from other City departments	1,043	—	—	1,043
Charges for services, net	2,311	—	—	2,311
Other	12,578	—	(69)	12,509
Total receivables	<u>116,606</u>	<u>—</u>	<u>(69)</u>	<u>116,537</u>
Inventories	36,250	—	—	36,250
Current deferred charges	987	—	—	987
Total current assets	<u>154,276</u>	<u>—</u>	<u>(69)</u>	<u>154,207</u>
Restricted assets:				
Deposits and investments with City				
Treasury:				
Transit Impact Development Fee	44,794	—	—	44,794
Other restricted investments	820	—	—	820
Deposits and investments held outside City				
Treasury	—	4,593	—	4,593
Interest receivable	—	18	—	18
Transit Impact Development Fee				
receivable, net	5,983	—	—	5,983
Total restricted assets	<u>51,597</u>	<u>4,611</u>	<u>—</u>	<u>56,208</u>
Noncurrent deferred charges	4,000	—	—	4,000
Capital assets	1,652,658	—	—	1,652,658
Total noncurrent assets	<u>1,708,255</u>	<u>4,611</u>	<u>—</u>	<u>1,712,866</u>
Total assets	\$ <u>1,862,531</u>	<u>4,611</u>	<u>(69)</u>	<u>1,867,073</u>

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

Supplemental Schedule – Schedule of Net Assets

June 30, 2003

(In thousands)

	<u>MUNI</u>	<u>SFMRIC</u>	<u>Eliminations</u>	<u>Total</u>
Liabilities:				
Current liabilities:				
Accounts payable and accrued expenses	\$ 37,380	—	—	37,380
Accrued payroll	22,374	—	—	22,374
Accrued vacation and sick leave	12,299	—	—	12,299
Accrued workers' compensation	22,565	—	—	22,565
Accrued claims	10,405	—	—	10,405
Deferred revenue and other deferred credits	3,052	—	—	3,052
Current capital lease obligations	163	—	—	163
Total current liabilities	<u>108,238</u>	<u>—</u>	<u>—</u>	<u>108,238</u>
Current liabilities payable from restricted assets	848	125	(69)	904
Noncurrent liabilities:				
Accrued vacation and sick leave	9,120	—	—	9,120
Accrued workers' compensation	75,098	—	—	75,098
Accrued claims	16,030	—	—	16,030
Deferred revenue and other deferred credits	36,876	—	—	36,876
Long-term capital lease obligations	168	—	—	168
Total noncurrent liabilities	<u>137,292</u>	<u>—</u>	<u>—</u>	<u>137,292</u>
Total liabilities	<u>\$ 246,378</u>	<u>125</u>	<u>(69)</u>	<u>246,434</u>
Net assets:				
Invested in capital assets, net of related debt	1,652,327	—	—	1,652,327
Restricted	50,749	4,486	69	55,304
Unrestricted	(86,923)	—	(69)	(86,992)
Total net assets	<u>\$ 1,616,153</u>	<u>4,486</u>	<u>—</u>	<u>1,620,639</u>

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, 2003

(In thousands)

	<u>MUNI</u>	<u>SFMRIC</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues:				
Passenger fares	\$ 97,764	—	—	97,764
Advertising	10,393	—	—	10,393
Paratransit revenue	1,071	—	—	1,071
Charter service	16	—	—	16
Rental income	160	—	—	160
Other	86	—	—	86
Total operating revenues	<u>109,490</u>	<u>—</u>	<u>—</u>	<u>109,490</u>
Operating expenses:				
Personal services	380,377	—	—	380,377
Contractual services	16,718	—	—	16,718
Materials and supplies	23,718	—	—	23,718
Depreciation	67,099	—	—	67,099
Services from other City departments	21,681	—	—	21,681
General and administrative	13,997	104	—	14,101
Other operating expenses	5,613	—	—	5,613
Total operating expenses	<u>529,203</u>	<u>104</u>	<u>—</u>	<u>529,307</u>
Operating loss	<u>(419,713)</u>	<u>(104)</u>	<u>—</u>	<u>(419,817)</u>
Nonoperating revenues (expenses):				
Operating assistance:				
Department of Parking and Traffic	113,094	—	—	113,094
Federal	17,955	—	—	17,955
State and other grants	73,884	—	—	73,884
Transit Impact Development Fee, net of expenses	2,854	—	—	2,854
Capital reserve revenue	1,315	—	—	1,315
Interest income	1,889	37	—	1,926
Interest expense	(488)	—	—	(488)
Loss on disposal of capital assets	(501)	—	—	(501)
Capital assistance of SFMRIC to MUNI	160	(160)	—	—
Other, net	1	20	—	21
Total nonoperating revenues, net	<u>210,163</u>	<u>(103)</u>	<u>—</u>	<u>210,060</u>
Loss before capital contribution and transfers	<u>(209,550)</u>	<u>(207)</u>	<u>—</u>	<u>(209,757)</u>
Capital contributions:				
Federal	80,454	—	—	80,454
State and others	79,818	—	—	79,818
Total capital contributions	<u>160,272</u>	<u>—</u>	<u>—</u>	<u>160,272</u>
Transfers in:				
City and County of San Francisco – General Fund	101,274	—	—	101,274
San Francisco County Transportation Authority	15,710	—	—	15,710
Total transfers in	<u>116,984</u>	<u>—</u>	<u>—</u>	<u>116,984</u>
Change in net assets	<u>67,706</u>	<u>(207)</u>	<u>—</u>	<u>67,499</u>
Total net assets – beginning	<u>1,548,447</u>	<u>4,693</u>	<u>—</u>	<u>1,553,140</u>
Total net assets – ending	<u>\$ 1,616,153</u>	<u>4,486</u>	<u>—</u>	<u>1,620,639</u>

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, 2003
(In thousands)

	Authorized grants as of July 1, 2002	New grants approved	Payments received	Expired/rescinded grants	Authorized grants as of June 30, 2003	Amounts not expended as of June 30, 2003	Grants receivable as of June 30, 2003
Capital grants:							
Construct Islais Creek	\$ 2,467	—	—	—	2,467	(2,467)	—
LRV Purchase	17,232	—	(16,328)	70	974	(974)	—
Section 9 Fiscal Year 1987/88	39	—	(39)	—	—	—	—
Section 9 Fiscal Year 1989/90	21	—	—	—	21	(21)	—
Section 9 Fiscal Year 1990/91	467	—	(100)	—	367	(341)	26
Section 9 Fiscal Year 1992/93	69	—	(22)	—	47	(47)	—
Section 9 Fiscal Year 1993/94	816	—	(79)	—	737	(730)	7
Section 9 Fiscal Year 1994/95	5,198	—	(840)	(4,008)	350	(308)	42
Section 9 Fiscal Year 1995/96	(4,333)	—	5,501	—	1,168	(1,132)	36
Section 9 Fiscal Year 1997/98	12,951	—	(12,950)	(1)	—	—	—
Section 9 Fiscal Year 1998/99	30,728	—	(22,715)	(70)	7,943	(7,771)	172
Section 9 Fiscal Year 1999/00	51,226	—	(21,245)	—	29,981	(19,808)	10,173
Section 9 Fiscal Year 2000/01	31,036	—	(7,501)	(312)	23,223	(18,901)	4,322
Section 9 Fiscal Year 2001/02	78,876	—	(15,869)	—	63,007	(62,318)	689
Section 9 Fiscal Year 2002/03	—	30,361	—	—	30,361	(30,361)	—
Section 23 Harrison Division Project	—	—	742	(742)	—	—	—
Diesel Bus Purchase	1,981	—	(1,981)	—	—	—	—
Total capital grants	\$ 228,774	30,361	(93,426)	(5,063)	160,646	(145,179)	15,467
Operating grants:							
Operating assistance	\$ 3,281	17,527	(3,281)	—	17,527	—	17,527
SRTP-CPT529 and 473	82	—	—	—	82	(82)	—
Federal Disaster Relief – Earthquake:							
FEMA – Geneva Building Demolition	18	—	—	—	18	(18)	—
Treasure Island	—	78	(312)	312	78	—	78
Emergency Preparedness	—	50	(20)	—	30	(13)	17
Total operating grants	\$ 3,381	17,655	(3,613)	312	17,735	(113)	17,622

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, 2003

(In thousands)

	Authorized grants as of July 1, 2002	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2003	Amounts not expended as of June 30, 2003	Grants receivable as of June 30, 2003
Capital grants:							
F-Market Street Thoroughfare	\$ 2,463	—	—	—	2,463	(2,463)	—
Muni Metro Extension	2,481	—	—	—	2,481	(2,481)	—
Muni, Metro Extra Cost	3,917	—	(3,917)	—	—	—	—
Total capital grants	\$ 8,861	—	(3,917)	—	4,944	(4,944)	—

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, 2003

(In thousands)

	Authorized grants as of July 1, 2002	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2003	Amounts not expended as of June 30, 2003	Grants receivable as of June 30, 2003
Capital grants:							
Bridge toll:							
Accessible Vans	\$ 43	—	(43)	—	—	—	—
Cable Car Renovation	174	58	(141)	—	91	(81)	10
F-Embarcadero Extension	210	2,650	(583)	—	2,277	(2,265)	12
Motor Coach Replacement	3,282	1,213	(3,003)	1,600	3,092	(1,552)	1,540
Overhead Reconstruction	3,125	604	(908)	—	2,821	(2,348)	473
Tract Replacement	576	1,129	(525)	—	1,180	(1,180)	—
Trolley Bus Replacement	1,660	—	—	(1,600)	60	—	60
Total capital grants	\$ 9,070	5,654	(5,203)	—	9,521	(7,426)	2,095
Operating grants:							
AB1107 Sales Tax	—	33,436	(29,918)	(1,026)	2,492	—	2,492
State Transit Assistance	—	15,659	(12,013)	—	3,646	—	3,646
Transportation Development Act	2,425	25,873	(25,373)	(2,925)	—	—	—
Total operating grants	\$ 2,425	74,968	(67,304)	(3,951)	6,138	—	6,138

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, 2003

(In thousands)

	Authorized grants as of July 1, 2002	New grants approved	Payments received	Expired/rescinded grants	Authorized grants as of June 30, 2003	Amounts not expended as of June 30, 2003	Grants receivable as of June 30, 2003
Capital grants:							
3rd Light Rail-Preliminary Design	\$ 47,446	88,773	(10,916)	—	125,303	(77,420)	47,883
Alternative Fuel Demo	1	—	(1)	—	—	—	—
Articulated Trolley Bus Purchase	7,700	—	(1,319)	(386)	5,995	(3,373)	2,622
Bus Stop Improvements	99	—	(34)	—	65	(11)	54
Central Subway	—	5,000	—	—	5,000	(4,834)	166
Diesel Bus Purchase	2,136	4,130	(823)	—	5,443	(5,188)	255
Escalator Replacement Study	110	—	—	—	110	(110)	—
F Embarcadero Extension	5,890	—	(19)	—	5,871	(5,068)	803
Facilities Rehabilitation and Improvement	4,228	6,324	198	—	10,750	(9,274)	1,476
Financial Capacity Study	240	—	—	—	240	(240)	—
Fleet Plan Update	118	—	—	—	118	(118)	—
F-Market PCC Rehabilitation	—	83	—	—	83	—	83
F-Market Transit Thoroughfare	4	—	—	—	4	(4)	—
Forest Hill Seepage and Seismic	12	—	—	—	12	(12)	—
Geneva Building Demolition	350	—	(4)	—	346	(334)	12
Historic Trolley Shed	92	—	(1)	—	91	(91)	—
Land Acquisition – Western Pacific Railroad Yard	301	—	(1)	—	300	(300)	—
LRV Modification	98	—	(2)	—	96	(96)	—
LRV Purchase	4,703	16,541	(9,027)	—	12,217	(9,296)	2,921
Metro Access Improvements	1	—	(1)	—	—	—	—
Metro East LRV Facility	—	2	—	—	2	(2)	—
Mission Hotel Development	500	—	—	—	500	(500)	—
Muni Metro Turnback	5,511	—	(16)	—	5,495	(5,495)	—
Rail Replacement/Maintenance Equipment	308	—	(26)	—	282	(175)	107
Rail/OH Infrastructure Study	3	—	—	—	3	(3)	—
Streetcar Rehabilitation	58	907	(25)	—	940	(927)	13
Trolley Overhead Reconstruction	59	—	(59)	—	—	—	—
Wood/Potrero Roof Replacement	1,297	—	(29)	—	1,268	(1,249)	19
Woods Division Renovation	1,309	780	(9)	—	2,080	(2,062)	18
Woods Seismic Study	33	—	—	—	33	(32)	1
Cowcap 2002 Outstanding Receivable	—	223	—	—	223	—	223
Auto Vehicle Location & ETJ Bus Lifts	2,673	—	(605)	—	2,068	(1,506)	562
Facilities Preservation Improvement Program-PPIP	3,695	—	—	(1,058)	2,637	(2,637)	—
Total capital grants	\$ 88,975	122,763	(22,719)	(1,444)	187,575	(130,357)	57,218

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, 2003

(In thousands)

	Authorized grants as of July 1, 2002	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2003	Amounts not expended as of June 30, 2003	Grants receivable as of June 30, 2003
Operating grants:							
F-Line Operations and Maintenance	\$ —	1,170	(1,145)	—	25	—	25
Graffiti Preventions	11	262	—	—	273	(219)	54
Capital Grant Staffing	227	385	(78)	—	534	(290)	244
Muni Metro Extension Operations and Maintenance	—	4,104	(4,025)	—	79	—	79
Paratransit Contract	—	9,661	(8,182)	—	1,479	—	1,479
Transit Preferential Streets	7	63	(18)	—	52	(7)	45
Trolley Bus Lifts Operations and Maintenance	179	596	(128)	—	647	(439)	208
Total operating grants	\$ 424	16,241	(13,576)	—	3,089	(955)	2,134

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, 2003

(In thousands)

	Authorized grants as of July 1, 2002	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2003	Amounts not expended as of June 30, 2003	Grants receivable as of June 30, 2003
Capital grants:							
Bay Area Air Quality Management District:							
Alternative Fuel Demonstration Project – R&D	\$ 74	—	(54)	—	20	(20)	—
Bike Rack Retrofit	90	63	(86)	—	67	(67)	—
Harrison Division Construction	—	70	(70)	—	—	—	—
Steuart and Mission Site	—	321	(321)	—	—	—	—
Lighting Retrofit	—	150	—	—	150	(150)	—
Total capital grants	\$ 164	604	(531)	—	237	(237)	—

See accompanying independent auditors' report.