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SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2001 and 2000

(With Independent Auditors' Report Thereon)

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SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

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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 consolidated statements of net assets of the San Francisco Municipal Railway (MUNI) and the San Francisco Municipal Railway Improvement Corporation (SFMRIC) as of June 30, 2001 and 2000, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of MUNI and SFMRIC. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above include only the financial activities of MUNI and SFMRIC and are not intended to present fairly the financial position of the City and County of San Francisco, and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco Municipal Railway and the San Francisco Municipal Railway Improvement Corporation as of June 30, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2(b) to the consolidated financial statements, the San Francisco Municipal Railway and the San Francisco Municipal Railway Improvement Corporation adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions;* GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments;* GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus;* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2001 on our consideration of MUNI's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the consolidated financial statements of MUNI and SFMRIC, but is supplemental information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplemental schedules on pages 30 through 37 for the year ended June 30, 2001 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the June 30, 2001 consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the consolidated financial statements taken as a whole.

KPMG LLP

October 26, 2001

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 year ended June 30, 2001. Readers are encouraged to consider the information presented here in conjunction with information contained in the financial statements. Comparative data will be provided in the management's discussion and analysis section of future MUNI and SFMRIC 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 $1,426,949.
- MUNI and SFMRIC's total net assets increased by $223,165. This increase is due primarily to an increase in property, plant and equipment.
- The balance of construction-in-progress increased by year end, primarily due to the Third Street Light Rail project and the acquisition of revenue vehicles.

Overview of the Consolidated Financial Statements

This discussion and analysis are intended to serve as an introduction to MUNI and SFMRIC's consolidated 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 as a component of the City's Comprehensive Annual Financial Report. More information regarding MUNI and SFMRIC's organization and the basis of accounting is contained in notes 1 and 2(a). Only the accounts of MUNI and SFMRIC are included in these financial statements.

The consolidated statements of net assets (found on pages 10 and 11) present information for 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, 2001 and 2000.

The consolidated 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.

(Continued)

(dollars in thousands, unless otherwise noted)

The consolidated 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 financial position cash balance 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 consolidated statements of cash flows help 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 the Consolidated Financial Statements. The notes provide additional information that is essential to the full understanding of the data provided in the consolidated financial statements. The notes to the consolidated financial statements can be found on pages 15 through 29 of this report.

Other Information. The supplemental schedules found on pages 30 through 37 of this report are presented for the purpose of additional analysis and are not a required part of the consolidated 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 $1,426,949 at the close of the most recent fiscal year.

The following table summarizes the consolidated net assets of MUNI and SFMRIC:

	June 30, 2001	June 30, 2000
Assets:		
Total current assets	$ 144,175	110,408
Total restricted assets	69,647	73,012
Noncurrent deferred charges	4,000	—
Property, plant and equipment, net	1,401,069	1,181,080
Total assets	1,618,891	1,364,500
Liabilities:		
Total current liabilities	112,709	84,642
Current liabilities payable from restricted assets	919	1,002
Total noncurrent liabilities	78,314	75,072
Total liabilities	191,942	160,716
Net assets:		
Invested in capital assets	1,401,069	1,181,080
Restricted	68,628	70,649
Unrestricted	(42,748)	(47,945)
Total net assets	$ 1,426,949	1,203,784

(Continued)

MUNI and SFMRIC's net assets increased by $223,165 compared to the prior year, due primarily to an increase in total property, plant and equipment, less accumulated depreciation and amortization. Specifically, there were increases in the value of equipment due to the acquisition of new rolling stock and in construction-in-progress, primarily for the Third Street Light Rail project and acquisition of revenue vehicles. The Third Street Light Rail project is a major vehicle and infrastructure project that will bring modern light rail service to the eastern side of San Francisco. The project is in final design and the line is expected to open in 2004. A table summarizing construction-in-progress can be found in note 5 on page 24.

Almost all of MUNI's net assets (98% as of June 30, 2001) reflect its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure and construction-in-progress). The cost of these assets of $1,867,367 is offset by accumulated depreciation and amortization of $466,298. More information can be found in note 5 on page 22. MUNI and SFMRIC use these assets to provide services. As of the end of June 30, 2001 and 2000, no related fixed asset debt was outstanding.

The remainder of MUNI's net assets (2%) is composed of its restricted and unrestricted net assets. This includes deposits and investments with the City, receivables, including grants and inventories.

(dollars in thousands, unless otherwise noted)

The following table summarizes the consolidated changes in net assets for MUNI and SFMRIC:

	June 30, 2001	June 30, 2000
Revenues:		
Total operating revenues	$ 113,196	110,653
Total nonoperating revenues, net	197,850	198,281
Capital contributions:		
Federal	192,508	108,419
State and others	98,568	50,456
Total capital contributions	291,076	158,875
Total transfers-in	114,792	100,356
Total revenues and transfers-in	716,914	568,165
Expenses:		
Total operating expenses	468,049	439,767
Transfers-out	—	2,400
Special item – property rights in perpetuity with San Francisco Port Commission	25,700	—
Total expenses and transfers-out	493,749	442,167
Changes in net assets	223,165	125,998
Total net assets – beginning	1,203,784	1,077,786
Total net assets – ending	$ 1,426,949	1,203,784

Total revenues and transfers-in for the year ended June 30, 2001 were $716,914. This is $148,749 higher than for the previous year, due primarily to an increase in capital contributions and transfers-in.

(Continued)

Operating revenues increased by $2,543 or 2%, due to increased ridership and an increase in advertising revenue. Nonoperating revenues decreased slightly compared to the previous year ($431 or less than 1%). This category includes operating support received from other sources, including operating sources and the Department of Parking and Traffic, which is the conduit for MUNI to receive money from certain parking fines, taxes, garages and meters. Capital contributions increased by $132,201 or 83%. The increase is mainly due to funding for MUNI to procure new motor coaches and light rail vehicles, as well as preliminary designs and other related costs required for the Third Street Light Rail project. 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 $16,836 or 17%, due to increased transfers from the General Fund as per Proposition E and due to funding received from the San Francisco County Transportation Authority in support of transit operating projects such as improved paratransit programs. Details of capital and operating grants from major funding agencies can be found on pages 33 through 37 of this report.

Total expenses (including special item) for the year ended June 30, 2001 were $493,749. This is $53,982 higher than the previous year, due primarily to operating budget expenses and a one-time payment to the San Francisco Port commission for property rights in perpetuity.

Operating expenses increased by $28,282 or 6% compared to the previous year. This increase is due primarily to increased personal services expenditures due to mandated salary adjustments in Employee Memorandums of Understanding and increased benefits costs. There was also a special item of $25,700 to the San Francisco Port Commission for property rights in perpetuity. This payment grants MUNI the permanent right to use a Port site (the Western Pacific Railroad Yard) for its Metro East Maintenance and Operations Facility, in support of the Third Street Light Rail project.

Capital Asset and Debt Administration

Capital Assets. MUNI and SFMRIC's investment in capital assets amounts to $1,401,069, which is net of accumulated depreciation and amortization. This investment includes land, buildings, structures and improvements, equipment, infrastructures and construction-in-progress. The capital assets increased by $219,989 or 19% compared to the previous year. This increase is attributable to increases in the balance of equipment due to the acquisition of new rolling stock and in the construction-in-progress, primarily for the Third Street Light Rail project and acquisition of revenue vehicles.

(Continued)

(dollars in thousands, unless otherwise noted)

Summary of Capital Assets

		Balance, June 30, 2001	Balance, June 30, 2000
Capital assets not being depreciated:			
Land	$	18,537	18,537
Construction-in-progress		354,426	245,797
Total capital assets not being depreciated		372,963	264,334
Capital assets being depreciated:			
Building structures and improvements		234,944	233,640
Equipment		665,898	533,344
Infrastructure		593,562	591,898
Total capital assets being depreciated		1,494,404	1,358,882
Less accumulated depreciation for:			
Building structures and improvements		78,272	72,591
Equipment		249,363	251,309
Infrastructure		138,663	118,236
Total accumulated depreciation		466,298	442,136
Total capital assets being depreciated, net		1,028,106	916,746
Total capital assets, net	$	1,401,069	1,181,080

Significant capital asset events during the fiscal year included:

- Progress on the Third Street Light Rail project to prepare elements of Phase I to go out to bid.
- Acquisition of 160 motor coaches and 25 light rail vehicles.
- The renovation of Woods Division.
- A stepped up rail replacement program.

Of the net capital assets, 30% is in equipment. This category includes standard office equipment, including computers and networking equipment, radio equipment, MUNI's vehicles, and all of the equipment required to maintain MUNI's vehicles and facilities. Another 32% is in infrastructure, which includes track, overhead equipment, elevators and tunnels. An additional 25% is in construction-in-progress, or capital improvement projects, which includes all of our capital work currently underway. The remainder of the capital assets are in land and building structures and improvements.

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Long-Term Debt. MUNI and SFMRIC had no long-term debt at year end. 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.

Economic and Other Factors

Economy. Going into the 2002 fiscal year, there are concerns about the state of the economy. MUNI's revenues are sensitive to changes in the economy and are constrained by a finite number of passengers and a developed geographic service area, which are of concern given the potential for a leveling or slowing economy. The fiscal year 2002 budget was prepared with these thoughts in mind. Since the recent events, the fear of an economic downturn has become more real. While it is too soon to predict how long or how deep the slowdown will be, MUNI is already taking steps to prudently monitor revenue streams and manage expenses throughout the year.

Pay Adjustment. In addition to the 4.4% pay adjustment that went into effect on July 1, 2001, MUNI operators are scheduled to receive a mid-year pay adjustment of 2.4% on February 4, 2002.

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 is 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 Evelyn Bruce, Finance and Administration, MUNI, 875 Stevenson, Room 260, San Francisco, CA 94103.

Questions regarding the City and County of San Francisco or requests 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

Consolidated Statements of Net Assets

June 30, 2001 and 2000
(in thousands)

		2001	2000
Assets:			
Current assets:			
Deposits and investments with City Treasury	$	9,098	26,717
Deposits and investments held outside City Treasury		100	100
Receivables:			
Grants		53,473	35,917
Due from San Francisco County Transportation Authority		40,932	13,382
Charges for services (net of allowance for doubtful accounts of $20 and $19 in 2001 and 2000, respectively)		4,657	4,326
Other		1,534	1,333
Total receivables		100,596	54,958
Inventories		33,790	28,609
Current deferred charges		591	24
Total current assets		144,175	110,408
Noncurrent assets:			
Restricted assets:			
Deposits and investments with City Treasury:			
Transit Impact Development Fee		57,911	59,992
Other restricted investments		821	897
Deposits and investments held outside City Treasury:			
Cash and cash equivalents		5,416	6,811
Interest receivable		11	17
Transit Impact Development Fee receivable (net of allowance of $940 in 2001 and 2000)		5,488	5,295
Total restricted assets		69,647	73,012
Noncurrent deferred charges		4,000	—
Property, plant and equipment, net		1,401,069	1,181,080
Total noncurrent assets		1,474,716	1,254,092
Total assets		1,618,891	1,364,500

(Continued)

SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Consolidated Statements of Net Assets

June 30, 2001 and 2000
(in thousands)

		2001	2000
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	$	48,448	23,360
Accrued payroll		18,986	17,007
Accrued vacation and sick leave		11,311	10,760
Accrued workers' compensation		16,776	16,569
Accrued claims		11,118	10,686
Deferred revenue and other deferred credits		6,070	6,260
Total current liabilities		112,709	84,642
Current liabilities payable from restricted assets		919	1,002
Noncurrent liabilities:			
Accrued vacation and sick leave		8,804	8,379
Accrued workers' compensation		50,614	46,776
Accrued claims		14,896	19,612
Deferred revenue and other deferred credits		4,000	305
Total noncurrent liabilities		78,314	75,072
Total liabilities		191,942	160,716
Net assets:			
Invested in capital assets		1,401,069	1,181,080
Restricted		68,628	70,649
Unrestricted		(42,748)	(47,945)
Total net assets	$	1,426,949	1,203,784

See accompanying notes to consolidated financial statements.

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Consolidated Statements of Revenues, Expenses
and Changes in Net Assets

Years ended June 30, 2001 and 2000
(in thousands)

		2001	2000
Operating revenues:			
Passenger fares	$	103,289	101,310
Advertising		8,899	8,371
Paratransit revenue		866	765
Charter bus		21	11
Rental income		62	56
Other		59	140
Total operating revenues		113,196	110,653
Operating expenses:			
Personal services		327,368	300,295
Contractual services		15,768	18,395
Materials and supplies		39,507	37,797
Depreciation		47,826	45,908
Services from other City departments		18,815	14,278
General and administrative		13,796	18,322
Other operating expenses		4,969	4,772
Total operating expenses		468,049	439,767
Operating loss		(354,853)	(329,114)
Nonoperating revenues (expenses):			
Operating assistance:			
Department of Parking and Traffic		110,932	103,635
Federal		12,749	16,923
State and other grants		66,936	69,283
Transit Impact Development Fee, net of expenses		2,345	4,689
Capital reserve revenue		383	87
Interest income		6,032	4,334
Interest expense		(704)	(1,529)
Loss on disposal of property, plant and equipment		(880)	11
Other, net		57	848
Total nonoperating revenues, net		197,850	198,281
Loss before capital contributions, transfers and special item		(157,003)	(130,833)
Capital contributions:			
Federal		192,508	108,419
State and others		98,568	50,456
Total capital contributions		291,076	158,875
Transfers-in:			
City and County of San Francisco – General Fund		98,025	90,720
San Francisco County Transportation Authority		16,767	9,636
Total transfers-in		114,792	100,356
Transfers-out:			
City and County of San Francisco – General Fund		—	(2,400)
Net transfers		114,792	97,956
Special item:			
Property rights in perpetuity with San Francisco Port Commission		(25,700)	—
Change in net assets		223,165	125,998
Total net assets – beginning		1,203,784	1,077,786
Total net assets – ending	$	1,426,949	1,203,784

See accompanying notes to consolidated financial statements.

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Consolidated Statements of Cash Flows

Years ended June 30, 2001 and 2000
(in thousands)

		2001	2000
Cash flows from operating activities:			
Cash received from passengers and service contracts	$	126,780	122,940
Cash paid to employees for services		(320,413)	(292,830)
Cash paid to suppliers for goods and services		(87,287)	(79,733)
Cash paid for judgment and claims		(7,755)	(3,112)
Cash paid for quasi-external transactions		(18,397)	(17,393)
Net cash used in operating activities		(307,072)	(270,128)
Cash flows from noncapital financing activities:			
Operating grants		198,698	178,891
Transfers-in		115,465	111,515
Transfers-out		—	(2,400)
Transit Impact Development Fee received, net of expenses		2,123	4,817
Other noncapital increases		3,982	1,131
Other noncapital decreases		(29,700)	(171)
Net cash provided by noncapital financing activities		290,568	293,783
Cash flows from capital and related financing activities:			
Capital grants		236,717	161,349
Proceeds from sale of property, plant and equipment		23	68
Acquisition of property, plant and equipment		(248,179)	(164,106)
Net cash used in capital and related financing activities		(11,439)	(2,689)
Cash flows from investing activities:			
Purchases of investments with trustees – restricted		(34,228)	(41,307)
Proceeds from sale of investments with trustees – restricted		35,637	49,829
Interest income received		6,067	4,319
Interest expense paid		(704)	(1,529)
Net cash provided by investing activities		6,772	11,312
Net (decrease) increase in cash and cash equivalents		(21,171)	32,278
Cash and cash equivalents – beginning of year		94,517	62,239
Cash and cash equivalents – end of year	$	73,346	94,517

(Continued)

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Consolidated Statements of Cash Flows

Years ended June 30, 2001 and 2000
(in thousands)

		2001	2000
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(354,853)	(329,114)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation		47,826	45,908
Provision for doubtful accounts		1	(18)
Changes in operating assets and liabilities:			
Receivables, net		(533)	294
Inventories		(5,181)	(7,563)
Deferred charges		(567)	—
Accounts payable		3,086	7,900
Accrued payroll and accrued expenses		1,934	4,179
Accrued vacation and sick leave		976	1,006
Accrued workers' compensation		4,045	2,280
Accrued claims		(4,284)	4,846
Deferred revenues and other deferred credits		478	154
Net cash used in operating activities	$	(307,072)	(270,128)
Reconciliation of cash and cash equivalents to the statements of net assets:			
Deposits and investments with City Treasury:			
Unrestricted	$	9,098	26,717
Restricted		58,732	60,889
Unrestricted deposits and investments held outside City Treasury		100	100
Total deposits and investments		67,930	87,706
Add restricted deposits and investments held outside City Treasury meeting the definition of cash equivalents		5,416	6,811
Total cash and cash equivalents, end of year	$	73,346	94,517

See accompanying notes to consolidated financial statements.

(1) Description of Reporting Entity

The consolidated 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 consolidated 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. MUNI was governed by a five-member San Francisco Public Transportation Commission (PTC). 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. Proposition E sets standards for performance and service to be provided by MUNI.

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.

(Continued)

(b) Implementation of New Accounting Principles

(i) Governmental Accounting Standards Board Statement No. 33

MUNI adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* This statement establishes accounting and financial reporting standards for nonexchange transactions involving financial and capital resources such as taxes and grants. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal value. This statement affects the timing of recognition of nonexchange transaction, that is, when governments recognize them in the financial statements. Accordingly, MUNI has recognized revenue in the statement of revenues, expenses and changes in net assets for capital contributions earned during the current year in lieu of directly recording such earned contributions as contributed capital which was a component of fund equity prior to MUNI's adoption of GASB Statement No. 34 (note 2(b)(ii)). The adoption of this standard increases revenues of MUNI by $291,076 and $158,875 for the years ended June 30, 2001, and 2000, respectively.

(ii) Governmental Accounting Standards Board Statement No. 34

MUNI adopted the provisions of GASB Statement No. 34, *Basic Financial Statements -and Management's Discussion and Analysis – For State and Local Governments.* This statement affects the manner in which MUNI prepares and presents financial information.

GASB Statement No. 34 establishes new requirements and a new reporting model for financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private sector organizations.

(Continued)

Statement of Net Assets – The statement of net assets is designed to display the financial position of MUNI. MUNI's fund equity is no longer reported as retained earnings and contributed capital, but rather as net assets which is broken down into three categories defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets including *restricted* capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Statement of Revenues, Expenses and Changes in Net Assets – The statement of revenues, expenses, and changes in net assets is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses and operating income.

(iii) Governmental Accounting Standards Board Statement No. 37

MUNI adopted the provisions of GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus.* This statement amends GASB Statement No. 34 to either 1) clarify certain provisions or 2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, MUNI considered the effects of this statement when adopting the provisions of GASB Statement No. 34 as previously described.

(iv) Governmental Accounting Standards Board Statement No. 38

MUNI adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures.* This statement modifies, establishes and rescinds certain financial statement disclosure requirements. Accordingly, certain note disclosures have been revised to conform to the provisions of GASB Statement No. 38.

(c) Investments

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

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the related assets which ranges from 10 to 60 years for ways and structures 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.

(e) Construction-in-Progress

Construction-in-progress represents the design and construction costs of various uncompleted projects.

(f) 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, and may be accumulated up to six months per employee.

(g) Capital Grants and Contributions

Capital grants and contributions from external sources are recognized as capital contributions 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 primarily 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.

(h) Operating Assistance Grants

Operating assistance grants are recognized as revenue when approved by the granting authority and/or 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)

(i) 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. An allowance of 1% of fees assessed has been provided for the possibility of paying refunds for the conversion of buildings to nonoffice use.

(j) General Fund Support

Prior to the passing of Proposition E in November 1999, it was the City's policy to subsidize operating deficits of MUNI by providing General Fund support. The annual amount was determined by the City during the budgetary process and approximates budgeted expenditures less budgeted revenues.

With the passing of Proposition E in November 1999, the San Francisco Charter Article VIIIA, Section 8A.105 now stipulates that beginning with the fiscal year 2000-2001 and in each fiscal year thereafter, the amount of General Fund support as calculated by the City's Controller which shall be no less than the amount of all appropriations from the General Fund to MUNI, including all supplemental appropriations, for the fiscal year 1998-1999 or the fiscal year 1999-2000, whichever is higher. This base year will be adjusted each year after fiscal year ended June 30, 2001 by the percentage increase or decrease in the aggregate City and County discretionary revenues.

In determining the aggregate City and County discretionary revenues, the Controller is to include only revenues received by the City, which are unrestricted and may be used at the option of the Mayor and the Board of Supervisors for any lawful City purpose. Errors in the Controller's estimate of discretionary revenues for a fiscal year shall be corrected by adjustment in the next year's estimate.

An adjustment shall also be made for any increases in General Fund appropriations to MUNI in subsequent years to provide continuing services not provided in the base year, but excluding additional appropriations for one-time expenditures such as capital expenditures or litigation judgments and settlements.

Finally, Proposition E provides that when parking revenues increase due to policy changes in fines, taxes or newly created positions, the base amount of General Fund support shall be reduced by 50% of such increase to reduce MUNI's reliance on the General Fund.

Under Proposition E, the City Treasurer is to set aside and maintain the amounts required to be set aside by Proposition E, together with any interest earned thereon, in the MUNI Fund, and any amounts unspent or uncommitted at the end of any fiscal year shall be carried forward, together with interest thereon, to the next fiscal year for use by MUNI.

(k) Cash and Cash Equivalents

MUNI maintains its deposits and investments and a significant 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.

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 statement 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, when purchased, are considered to be cash equivalents. Restricted deposits and investments held outside City Treasury are also considered cash equivalents if they meet the same definition of cash and cash equivalents.

(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.

(m) Reclassifications

Certain reclassifications have been made to the 2000 financial statements to conform with current year presentation.

(dollars in thousands, unless otherwise noted)

(3) Net Assets

Net assets as of June 30, 2001 and 2000 consist of the following:

		2001	2000
Restricted assets:			
Deposits and investments with City Treasury	$	58,732	60,889
Deposits and investments held outside City Treasury		5,416	6,811
Receivables		5,499	5,312
Total restricted assets		69,647	73,012
Restricted liabilities of:			
SFMRIC		(64)	(72)
TIDF		(34)	(33)
Others		(821)	(897)
Total restricted liabilities		(919)	(1,002)
Due from SFMRIC to MUNI		(100)	(1,361)
Net restricted assets	$	68,628	70,649
Net assets:			
Restricted	$	68,628	70,649
Unrestricted		(42,748)	(47,945)
Invested in capital assets		1,401,069	1,181,080
Total net assets	$	1,426,949	1,203,784

(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, 2001 and 2000, MUNI and SFMRIC's unrestricted deposits and investments were $9,198 and $26,817, respectively, and the carrying amount of MUNI and SFMRIC's time and demand deposits was $154 and $141, respectively, with a corresponding bank balance of $59 and $55, respectively, which was insured or collateralized by securities held by MUNI's or SFMRIC's agent in MUNI's or SFMRIC's name.

(dollars in thousands, unless otherwise noted)

The restricted assets' deposits and investments held outside the City Treasury are held by a trustee. As of June 30, 2001 and 2000, MUNI and SFMRIC had deposits and investments with the trustee of $5,416 and $6,811, respectively, which meet the definition of cash and cash equivalents.

(5) Property, Plant and Equipment

Property, plant and equipment balances and their movements as of and for the years ended June 30, 2001 and 2000 are as follows:

	Balance, July 1, 2000	Increases	Decreases	Balance, June 30, 2001
Capital assets not being depreciated:				
Land	$ 18,537	—	—	18,537
Construction-in-progress	245,797	108,629	—	354,426
Total capital assets not being depreciated	264,334	108,629	—	372,963
Capital assets being depreciated:				
Building structures and improvements	233,640	1,304	—	234,944
Equipment	533,344	157,121	(24,567)	665,898
Infrastructure	591,898	1,664	—	593,562
Total capital assets being depreciated	1,358,882	160,089	(24,567)	1,494,404
Less accumulated depreciation for:				
Building structures and improvements	72,591	5,681	—	78,272
Equipment	251,309	21,718	(23,664)	249,363
Infrastructure	118,236	20,427	—	138,663
Total accumulated depreciation	442,136	47,826	(23,664)	466,298
Total capital assets being depreciated, net	916,746	112,263	(903)	1,028,106
Total capital assets, net	$ 1,181,080	220,892	(903)	1,401,069

(Continued)

(dollars in thousands, unless otherwise noted)

	Balance, July 1, 1999	Increases	Decreases	Balance, June 30, 2000
Capital assets not being depreciated:				
Land	$ 18,537	—	—	18,537
Construction-in-progress	177,158	68,639	—	245,797
Total capital assets not being depreciated	195,695	68,639	—	264,334
Capital assets being depreciated:				
Building structures and improvements	164,768	68,872	—	233,640
Equipment	507,971	26,595	(1,222)	533,344
Infrastructure	591,898	—	—	591,898
Total capital assets being depreciated	1,264,637	95,467	(1,222)	1,358,882
Less accumulated depreciation for:				
Building structures and improvements	66,794	5,797	—	72,591
Equipment	231,532	20,940	(1,163)	251,309
Infrastructure	99,066	19,170	—	118,236
Total accumulated depreciation	397,392	45,907	(1,163)	442,136
Total capital assets being depreciated, net	867,245	49,560	(59)	916,746
Total capital assets, net	$ 1,062,940	118,199	(59)	1,181,080

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 $18,204 as of June 30, 2001.

(dollars in thousands, unless otherwise noted)

Construction-in-progress consists of the following projects as of June 30, 2001 and 2000:

		2001	2000
Light rail vehicles	$	81,117	82,469
Third Street light rail		33,458	8,528
Automatic train control system		58,112	56,121
Articulated trolley coaches		99,282	48,013
Wood division renovation		18,463	11,162
Rail replacement		13,600	4,836
Others		50,394	34,668
	$	354,426	245,797

(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, 2001 and 2000, no bonds were outstanding under the TIP.

(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 2001 and 2000 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 2001 and 2000 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 $16,335 and $14,784 for the years ended June 30, 2001 and 2000, respectively, which were equal to the required employee contributions for each year.

(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 consolidated 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 are 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, 2001 and 2000 were $27,758 and $24,842, respectively. Included in these amounts are $3,674 and $2,813 for 2001 and 2000, respectively, to provide postretirement healthcare benefits for retired employees. MUNI's liability for postretirement healthcare benefits is limited to its annual contribution. The Health Service System issues a publicly available financial report that includes financial statements for the health care benefits plan. The report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, CA 94103, or by calling (415) 554-1700.

(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 expires on October 18, 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 $8.1 million and $4.8 million in fiscal years 2001 and 2000, respectively.

(dollars in thousands, unless otherwise noted)

(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, 2001 and 2000 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, 2001 and 2000 are as follows:

		2001	2000
Accrued claims liabilities, beginning of fiscal year	$	30,298	25,452
Incurred claims and changes in estimates		3,471	7,958
Claims payments		(7,755)	(3,112)
Accrued claims liabilities, end of fiscal year	$	26,014	30,298
Accrued workers' compensation, beginning of fiscal year	$	63,345	61,065
Incurred workers' compensation and changes in estimates		22,398	21,833
Workers' compensation payments		(18,353)	(19,553)
Accrued workers' compensation, end of fiscal year	$	67,390	63,345

Workers' compensation expense is part of personal services, while claims expense is part of general and administrative under operating expenses in the accompanying consolidated financial statements for the years ended June 30, 2001 and 2000.

(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 consolidated financial statements includes a revenue transfer of $704 and $1,529 to fund additional interest expense for the years ended June 30, 2001 and 2000, respectively, that was recorded relating to the overdraft with the City Treasurer.

(Continued)

(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, 2001, MUNI had approved capital grants with unused balances amounting to $252.3 million. Capital grants receivable as of June 30, 2001 totaled $80.9 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, 2001, MUNI had various operating grants receivable of $13.5 million.

The capital and operating grants identified above include funds received and due from the San Francisco County Transportation Authority (SFCTA). During the fiscal year ended June 30, 2001, new capital grants were approved by SFCTA in the amount of $33.2 million and payments received by MUNI for capital grants totaled $58.1 million. As of June 30, 2001, MUNI had funds due from SFCTA for capital grants in the amount of $39.3 million. Similarly, MUNI receives operating grants from SFCTA. During the fiscal year ended June 30, 2001, SFCTA approved new operating grants in the amount of $15.2 million and payments received by MUNI totaled $15.5 million. As of June 30, 2001, MUNI had funds due from SFCTA for operating grants in the amount of $1.6 million.

(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 the Port is reflected as a special item, with the funding received from SFCTA as capital contribution, in the accompanying consolidated 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 and MUNI to SFCTA. MUNI has agreed to reasonably extend this deadline for up to two additional years 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 Port is reflected as noncurrent deferred charge, with the funding received from SFCTA as long-term deferred credit, in the accompanying consolidated statement net assets as of June 30, 2001.

(Continued)

(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 $3,882 and $3,828 for the years ended June 30, 2001 and 2000, respectively.

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

Year ending June 30:		
2002	$	3,739
2003		3,927
2004		3,590
2005		1,996
2006		459
2007 – 2011		121
2012 – 2016		121
2017 – 2021		121
2022 – 2026		121
2027 – 2030		97
Total	$	14,292

(dollars in thousands, unless otherwise noted)

(c) *Other Commitments*

As of June 30, 2001, MUNI has outstanding commitments of approximately $108.8 million with third parties for various capital projects. Grant funding is available for the majority of this amount. MUNI also has outstanding commitments of approximately $8.9 million with third parties for noncapital expenditures. Various local funding sources are used to finance these expenditures.

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, 2001 are as follows:

Tank Cleanup	$	35
FTA Section 9 Matching		54
MUNI Metro Accessibility Improvements		18
FTA Section 23 Matching		80
Diesel Bus Rehabilitation		43
MUNI Metro Extension/F – Embarcadero Connection		500
Central Control and Revenue Center		150
Steuart and Mission Foundation Work		50
Rail Replacement Program		1,160
Islais Creed Storage and Maintenance Facility		1,045
Local Match CA 90-0607		14
Local Match for Paratransit Program		125
	$	3,274

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.

SUPPLEMENTAL SCHEDULES

SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Supplemental Schedule – Consolidating Statement of Net Assets

June 30, 2001
(in thousands)

	MUNI	SFMRIC	Eliminations	Consolidated
Assets:				
Current assets:				
Deposits and investments with City Treasury	$ 9,098	—	—	9,098
Deposits and investments held outside City Treasury	100	—	—	100
Receivables:				
Grants	53,473	—	—	53,473
Due from the San Francisco County Transportation Authority	40,932	—	—	40,932
Charges for services, net	4,657	—	—	4,657
Other	1,534	—	—	1,534
Total receivables	100,596	—	—	100,596
Due from other funds	100	—	(100)	—
Inventories	33,790	—	—	33,790
Current deferred charges	591	—	—	591
Total current assets	144,275	—	(100)	144,175
Restricted assets:				
Deposits and investments with City Treasury:				
Transit Impact Development Fee	57,911	—	—	57,911
Other restricted investments	821	—	—	821
Deposits and investments held outside City Treasury – cash and cash equivalents	—	5,416	—	5,416
Interest receivable	—	11	—	11
Transit Impact Development Fee receivable, net	5,488	—	—	5,488
Total restricted assets	64,220	5,427	—	69,647
Noncurrent deferred charges	4,000	—	—	4,000
Property, plant and equipment, net	1,401,069	—	—	1,401,069
Total assets	1,613,564	5,427	(100)	1,618,891

SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Supplemental Schedule – Consolidating Statement of Net Assets

June 30, 2001
(in thousands)

	MUNI	SFMRIC	Eliminations	Consolidated
Liabilities:				
Current liabilities:				
Accounts payable and accrued expenses	$ 48,448	—	—	48,448
Accrued payroll	18,986	—	—	18,986
Accrued vacation and sick leave	11,311	—	—	11,311
Accrued workers' compensation	16,776	—	—	16,776
Accrued claims	11,118	—	—	11,118
Deferred revenue and other deferred credits	6,070	—	—	6,070
Due to other funds	—	100	(100)	—
Total current liabilities	112,709	100	(100)	112,709
Current liabilities payable from restricted assets	855	64	—	919
Noncurrent liabilities:				
Accrued vacation and sick leave	8,804	—	—	8,804
Accrued workers' compensation	50,614	—	—	50,614
Accrued claims	14,896	—	—	14,896
Deferred revenue and other deferred credits	4,000	—	—	4,000
Total noncurrent liabilities	78,314	—	—	78,314
Total liabilities	191,878	164	(100)	191,942
Net assets:				
Invested in capital assets	1,401,069	—	—	1,401,069
Restricted	63,365	5,263	—	68,628
Unrestricted	(42,748)	—	—	(42,748)
Total net assets	$ 1,421,686	5,263	—	1,426,949

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

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

Year ended June 30, 2001
(in thousands)

	MUNI	SFMRIC	Eliminations	Consolidated
Operating revenues:				
Passenger fares	$ 103,289	—	—	103,289
Advertising	8,899	—	—	8,899
Paratransit revenue	866	—	—	866
Charter bus	21	—	—	21
Rental income	62	—	—	62
Other	59	—	—	59
Total operating revenues	113,196	—	—	113,196
Operating expenses:				
Personal services	327,368	—	—	327,368
Contractual services	15,658	110	—	15,768
Materials and supplies	39,507	—	—	39,507
Depreciation	47,826	—	—	47,826
Services from other city departments	18,815	—	—	18,815
General and administrative	13,796	—	—	13,796
Other operating expenses	4,969	—	—	4,969
Total operating expenses	467,939	110	—	468,049
Operating loss	(354,743)	(110)	—	(354,853)
Nonoperating revenues (expenses):				
Operating assistance:				
Department of Parking and Traffic	110,932	—	—	110,932
Federal	12,749	—	—	12,749
State and other grants	66,936	—	—	66,936
Transit Impact Development Fee, net of expenses	2,345	—	—	2,345
Capital reserve revenue	383	—	—	383
Interest income	5,723	309	—	6,032
Interest expense	(704)	—	—	(704)
Loss on disposal of property, plant and equipment	(880)	—	—	(880)
Capital assistance of SFMRIC to MUNI	331	(331)	—	—
Other, net	57	—	—	57
Total nonoperating revenues, net	197,872	(22)	—	197,850
Loss before capital contribution, transfers and special item	(156,871)	(132)	—	(157,003)
Capital contributions:				
Federal	192,508	—	—	192,508
State and others	98,568	—	—	98,568
Total capital contributions	291,076	—	—	291,076
Transfers-in:				
City and County of San Francisco – General Fund	98,025	—	—	98,025
San Francisco County Transportation Authority	16,767	—	—	16,767
Total transfers-in	114,792	—	—	114,792
Special item –				
Property rights in perpetuity with San Francisco Port Commission	(25,700)	—	—	(25,700)
Change in net assets	223,297	(132)	—	223,165
Total net assets – beginning	1,198,389	5,395	—	1,203,784
Total net assets – ending	$ 1,421,686	5,263	—	1,426,949

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, 2001
(in thousands)

	Authorized grants as of July 1, 2000	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2001	Amounts not expended as of June 30, 2001	Grants receivable as of June 30, 2001 (1)
Capital grants:							
31 Balboa Construction	$ 1,298	—	(1,298)	—	—	—	—
Construct Islais Creek	2,467	—	—	—	2,467	(2,467)	—
LRV Purchase	49,705	5,678	(42,402)	—	12,981	(6,359)	6,622
Section 9 FY 1987/88	193	—	(12)	—	181	(181)	—
Section 9 FY 1989/90	22	—	—	(1)	21	(21)	—
Section 9 FY 1990/91	643	2	(111)	—	534	(504)	30
Section 9 FY 1992/93	457	—	—	(1)	456	(456)	—
Section 9 FY 1993/94	890	—	(38)	(7)	845	(818)	27
Section 9 FY 1994/95	8,184	—	(2,331)	—	5,853	(5,789)	64
Section 9 FY 1995/96	39,997	6	(37,477)	—	2,526	(2,650)	(124)
Section 9 FY 1997/98	122,612	—	(67,831)	(2,793)	51,988	(43,330)	8,658
Section 9 FY 1998/99	77,815	2,036	(16,940)	—	62,911	(61,281)	1,630
Section 9 FY 1999/00	—	96,442	(10,393)	—	86,049	(69,657)	16,392
Total capital grants	$ 304,283	104,164	(178,833)	(2,802)	226,812	(193,513)	33,299
Operating grants:							
Operating assistance	$ 8,200	5,778	(10,175)	—	3,803	—	3,803
SRTP-CPT529 and 473	82	86	—	—	168	(168)	—
Violence Prevention Program	—	52	(52)	—	—	—	—
Federal Disaster Relief – Earthquake (FEMA):							
FEMA – Geneva Building Demolition	35	—	(16)	—	19	(18)	1
FEMA – Woods Renovation	39	—	(39)	—	—	—	—
Total operating grants	$ 8,356	5,916	(10,282)	—	3,990	(186)	3,804

(1) The grant receivable balances are for selected projects, and will not agree to the total grants receivable balance on MUNI's June 30, 2001 consolidated statement of net assets.

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, 2001
(in thousands)

	Authorized grants as of July 1, 2000	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2001	Amounts not expended as of June 30, 2001	Grants receivable as of June 30, 2001 (1)
Capital grants:							
Automatic Train Control System	$ 98	—	(96)	(2)	—	—	—
F-Market Street Thoroughfare	2,463	—	—	—	2,463	(2,463)	—
Maintenance Shop Facility Improvements	876	—	—	—	876	(876)	—
Metro Access Improvement	621	—	(621)	—	—	—	—
Muni Metro Extension	2,481	—	—	—	2,481	(2,481)	—
Trolley Bus Purchases	8,263	—	(3,402)	—	4,861	—	4,861
TSM Translink	968	—	—	(968)	—	—	—
Muni. Metro Extra Cost	1,140	—	(1,140)	—	—	—	—
Total capital grants	$ 16,910	—	(5,259)	(970)	10,681	(5,820)	4,861

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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, 2001
(in thousands)

	Authorized grants as of July 1, 2000	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2001	Amounts not expended as of June 30, 2001	Grants receivable as of June 30, 2001 (1)
Capital grants:							
Bridge toll:							
40FT Bus Replacement	$ 2,731	—	(2,731)	—	—	—	—
Accessible Vans	407	—	—	—	407	(407)	—
Artic Trolley Coach	—	1,660	—	—	1,660	(1,660)	—
Cable Car Renovation	—	169	(15)	—	154	(48)	106
Diesel Bus Purchase	391	—	(391)	—	—	—	—
F-Embarcadero Extension	624	675	(624)	—	675	(675)	—
Local Match to Federal Section 9 FY90/91	57	—	(57)	—	—	—	—
Local Match to Federal Section 9 FY91/92	405	—	(1)	—	404	(404)	—
Local Match to Federal Section 9 FY94/95	124	—	(9)	—	115	(112)	3
MMX to F Line connection	175	—	—	—	175	(175)	—
Motor Coach Replacement	—	3,203	—	—	3,203	(3,203)	—
Overhead Reconstruction	—	1,250	—	—	1,250	(1,250)	—
Rail Replacement	1,061	—	(182)	—	879	(61)	818
Replace 455 Motor Coaches	—	2,227	—	—	2,227	(2,038)	189
Tract Replacement	—	800	—	—	800	(576)	224
Trolley Bus Replacement	1,660	—	—	—	1,660	—	1,660
Trolley Bus Purchase	3,376	—	(3,376)	—	—	—	—
Trolley Overhead Construction	1,094	—	(672)	—	422	—	422
Trolley Overhead Reconstruction	419	140	—	—	559	(546)	13
Woods Anne Islais Creek	136	—	(136)	—	—	—	—
Total capital grants	$ 12,660	10,124	(8,194)	—	14,590	(11,155)	3,435
Operating grants:							
AB1107 Sales Tax	$ 7,545	27,650	(30,587)	—	4,608	—	4,608
State Transit Assistance	—	8,801	(8,801)	—	—	—	—
Transportation Development Act	—	27,358	(27,358)	—	—	—	—
Total operating grants	$ 7,545	63,809	(66,746)	—	4,608	—	4,608

(1) The grant receivable balances are for selected projects, and will not agree to the total grants receivable balance on MUNI's June 30, 2001 consolidated statement of net assets.

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, 2001
(in thousands)

		Authorized grants as of July 1, 2000	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2001	Amounts not expended as of June 30, 2001	Grants receivable as of June 30, 2001 (1)
Capital grants:								
3rd Light Rail-Preliminary Design	$	31,129	821	(23,002)	—	8,948	(3,325)	5,623
Alternative Fuel Demo		3,168	—	(32)	(1,591)	1,545	(447)	1,098
Articulated Trolley Bus Purchase		15,139	—	(4,577)	(388)	10,174	(9,789)	385
Bus Stop Improvements		189	—	—	—	189	(189)	—
Diesel Bus Purchase		11,244	—	(9,229)	—	2,015	(1,726)	289
Escalator Replacement Study		—	828	—	—	828	(828)	—
F Embarcadero Extension		11,100	—	(3,871)	(500)	6,729	(6,045)	684
Facilities Rehabilitation and Improvement		3,517	993	(1,379)	—	3,131	(2,986)	145
Financial Capacity Study		240	—	—	—	240	(240)	—
Fleet Plan Update		118	—	—	—	118	(118)	—
F-Market Transit Thoroughfare		4	—	—	—	4	(4)	—
Forest Hill Seepage and Seismic		55	—	(41)	—	14	(12)	2
Geneva Building Demolition		268	200	(110)	—	358	(358)	—
Historic Trolley Shed		—	20	—	—	20	(20)	—
Land Acquisition – Western Pacific Railroad Yard		—	29,700	—	—	29,700	—	29,700
LRV Modification		97	—	(2)	—	95	(95)	—
LRV Purchase		15,265	—	(9,308)	—	5,957	(4,657)	1,300
Major Transit Corridor		358	36	(93)	—	301	(301)	—
Metro Access Improvements		396	—	(396)	—	—	—	—
Mission Hotel Development		—	500	—	—	500	(500)	—
Muni Metro Turnback		5,590	—	(49)	—	5,541	(5,538)	3
Rail Replacement/Maintenance Equipment		1,523	—	(1,093)	—	430	(410)	20
Rail/OH Infrastructure Study		62	—	—	—	62	(62)	—
Signal Preemption		2	—	(2)	—	—	—	—
Streetcar Rehabilitation		452	106	(346)	(2)	210	(210)	—
Trolley Overhead Reconstruction		429	—	(429)	—	—	—	—
Wood/Potrero Roof Replacement		1,484	—	(522)	—	962	(887)	75
Woods Division Renovation		5,004	—	(3,462)	—	1,542	(1,542)	—
Woods Seismic Study		198	—	(165)	—	33	(33)	—
Total capital grants	$	107,031	33,204	(58,108)	(2,481)	79,646	(40,322)	39,324

(1) The grant receivable balances are for selected projects, and will not agree to the total grants receivable balance on MUNI's June 30, 2001 consolidated statement of net assets.

(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, 2001
(in thousands)

	Authorized grants as of July 1, 2000	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2001	Amounts not expended as of June 30, 2001	Grants receivable as of June 30, 2001
Operating grants:							
F-Line Operations and Maintenance	$ 19	1,459	(1,478)	—	—	—	—
Graffiti Preventions	11	—	—	—	11	(11)	—
Grant Section Staffing	69	348	(253)	—	164	(98)	66
Muni Metro Extension Operations and Maintenance	1,292	5,642	(5,044)	(348)	1,542	—	1,542
Paratransit Contract	860	7,734	(8,594)	—	—	—	—
Transit Preferential Streets	90	62	(146)	—	6	(6)	—
Trolley Bus Lifts Operations and Maintenance	86	—	—	—	86	(86)	—
Total operating grants	$ 2,427	15,245	(15,515)	(348)	1,809	(201)	1,608

See accompanying independent auditors' report.