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SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2000 and 1999

(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 balance sheets of the San Francisco Municipal Railway (MUNI) and the San Francisco Municipal Railway Improvement Corporation (SFMRIC) as of June 30, 2000 and 1999 and the related consolidated statements of operations and changes in equity 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 described more fully 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 and results of operations of the City and County of San Francisco 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, 2000 and 1999 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2000 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.

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Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplemental schedules listed in the table of contents for the year ended June 30, 2000 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, 2000 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 24, 2000

SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Consolidated Balance Sheets

June 30, 2000 and 1999
(in thousands)

Assets		**2000**	**1999**
Current assets:			
Deposits and investments with City Treasury	$	26,717	4,964
Deposits and investments outside City Treasury		100	100
Receivables:			
Grants		35,917	32,747
Due from San Francisco County Transportation Authority		13,382	14,404
Charges for services (net of allowance for doubtful accounts of $19 and $37 in 2000 and 1999, respectively)		4,326	5,300
Other		1,333	635
Total receivables		54,958	53,086
Inventories		28,609	21,046
Deferred charges		24	21
Total current assets		110,408	79,217
Restricted assets:			
Deposits and investments with City Treasury:			
Transit Impact Development Fee		59,992	56,388
Other restricted investments		897	734
Deposits and investments held outside City Treasury:			
Cash and cash equivalents		6,811	53
Investments		—	8,522
Interest receivable		17	2
Transit Impact Development Fee receivable (net of allowance of $940 in 2000 and 1999)		5,295	5,418
Total restricted assets		73,012	71,117
Fixed assets:			
Land		18,537	18,537
Ways and structures		833,394	756,627
Equipment		525,488	508,010
Construction in progress		245,797	177,158
Total fixed assets		1,623,216	1,460,332
Less accumulated depreciation		(442,136)	(397,393)
Net fixed assets		1,181,080	1,062,939
	$	1,364,500	1,213,273

(Continued)

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Consolidated Balance Sheets

June 30, 2000 and 1999
(in thousands)

Liabilities, Equity and Retained Earnings		**2000**	**1999**
Current liabilities:			
Accounts payable and accrued expenses	$	23,360	15,460
Accrued payroll		17,007	12,828
Accrued vacation and sick leave		10,760	10,018
Accrued workers' compensation		16,569	17,499
Estimated claims payable		10,686	7,090
Deferred revenue and other deferred credits		6,260	1,365
Total current liabilities		84,642	64,260
Liabilities payable from restricted assets		1,002	801
Long-term liabilities:			
Accrued vacation and sick leave		8,379	8,115
Accrued workers' compensation		46,776	43,566
Estimated claims payable		19,612	18,362
Deferred revenue and other deferred credits		305	383
Total long-term liabilities		75,072	70,426
Total liabilities		160,716	135,487
Equity and retained earnings:			
Contributed capital		1,102,118	985,582
Retained earnings:			
Reserved		66,615	62,791
Unreserved		35,051	29,413
Total equity and retained earnings		1,203,784	1,077,786
	$	1,364,500	1,213,273

See accompanying notes to consolidated financial statements.

SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Consolidated Statements of Operations and Changes in Equity

Years ended June 30, 2000 and 1999
(dollars in thousands)

	2000	1999
Operating revenues:		
Passenger fares	$ 101,310	97,084
Advertising	8,371	4,079
Paratransit revenue	765	567
Charter bus	11	16
Rental income	56	60
Other	684	293
Total operating revenues	111,197	102,099
Operating expenses:		
Personal services	300,295	282,891
Contractual services	20,249	15,862
Materials and supplies	37,797	26,888
Depreciation	45,908	32,303
Services from other city departments	14,278	11,041
General and administrative	17,012	19,557
Other operating expenses	5,400	3,719
Total operating expenses	440,939	392,261
Operating loss	(329,742)	(290,162)
Nonoperating revenues (expenses):		
Operating assistance:		
Department of Parking and Traffic	103,635	91,962
Federal	16,923	1,068
State	24,399	30,031
Other grants	44,884	40,637
Transit impact development fees, net of expense	4,689	(26)
Capital reserve expense, net	87	99
Interest income	4,334	4,325
Interest expense	(1,529)	(1,236)
Loss on disposal of fixed assets	11	18
Other, net	848	75
Net nonoperating revenues	198,281	166,953
Net loss before operating transfers	(131,461)	(123,209)
Operating transfers in:		
City and County of San Francisco – General Fund	90,720	69,746
San Francisco County Transportation Authority	9,636	9,838
Other funds	628	866
Total operating transfers in	100,984	80,450
Operating transfers out	(2,400)	—
Net operating transfers	98,584	80,450
Net loss	(32,877)	(42,759)
Depreciation and retirement of assets acquired with capital grants and contributions	42,339	27,864
Increase (decrease) in retained earnings	9,462	(14,895)
Retained earnings, beginning of year	92,204	107,099
Retained earnings, end of year	101,666	92,204
Contributed capital, beginning of year	985,582	877,391
Depreciation and retirement of assets acquired with capital grants and contributions	(42,339)	(27,864)
Capital grants and contributions:		
Federal capital projects grants	108,419	64,870
Other grants	50,456	71,185
Contributed capital, end of year	1,102,118	985,582
Total equity	$ 1,203,784	1,077,786

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, 2000 and 1999
(dollars in thousands)

		2000	1999
Cash flows from operating activities:			
Cash received from passengers and service contracts	$	122,198	111,048
Cash paid to employees for services		(295,110)	(268,105)
Cash paid to suppliers for goods and services		(79,909)	(64,336)
Cash paid for judgment and claims		(3,657)	(9,719)
Cash paid for quasi-external transactions		(14,278)	(10,741)
Net cash used in operating activities		(270,756)	(241,853)
Cash flows from noncapital financing activities:			
Operating grants		190,050	174,650
Operating transfers in		100,984	80,450
Operating transfers out		(2,400)	—
Transit Impact Development Fee received, net of expenses		4,817	40
Other noncapital increases		1,131	222
Other noncapital decreases		(171)	(972)
Net cash provided by noncapital financing activities		294,411	254,390
Cash flows from capital and related financing activities:			
Capital grants		161,349	124,854
Proceeds from sale of fixed assets		68	17
Acquisition of fixed assets		(164,106)	(142,547)
Net cash used in capital and related financing activities		(2,689)	(17,676)
Cash flows from investing activities:			
Purchases of investments with trustees – restricted		(41,307)	(52,226)
Proceeds from sale of investments with trustees – restricted		49,829	53,553
Interest income received		2,790	3,092
Net cash provided by investing activities		11,312	4,419
Net increase (decrease) in cash and cash equivalents		32,278	(720)
Cash and cash equivalents:			
Beginning of year		62,239	62,959
End of year	$	94,517	62,239

(Continued)

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Consolidated Statements of Cash Flows

Years ended June 30, 2000 and 1999
(dollars in thousands)

		2000	1999
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(329,742)	(290,162)
Adjustments for noncash activities:			
Depreciation		45,908	32,303
Provision for uncollectible accounts		(18)	(110)
Changes in operating assets and liabilities:			
Receivables, net		294	407
Due from other funds		—	301
Inventories		(7,563)	(638)
Accounts payable		7,900	(1,126)
Accrued payroll		4,179	1,384
Accrued vacation and sick leave		1,006	658
Accrued workers' compensation		2,280	12,743
Estimated claims payable		4,846	2,288
Deferred charges and other liabilities		154	99
Net cash used in operating activities	$	(270,756)	(241,853)
Reconciliation of cash and cash equivalents to the balance sheet:			
Deposits and investments with City Treasury:			
Unrestricted	$	26,717	4,964
Restricted		60,889	57,122
Unrestricted deposits and investments outside City Treasury		100	100
Total deposits and investments		87,706	62,186
Add restricted deposits outside City Treasury meeting the definition of cash equivalents		6,811	53
Total cash and cash equivalents, end of year	$	94,517	62,239
Noncash transactions:			
Depreciation on contributed capital	$	42,339	27,864

See accompanying notes to consolidated financial statements.

(1) Organization and Basis of Presentation

(a) 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 included in the General Purpose Financial Statements of the City as an enterprise fund.

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 to run MUNI. Proposition E sets standards for performance and service by MUNI.

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.

(b) 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 applies all Governmental Accounting Standards Boards (GASB) Statements, as well as the Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(2) Significant Accounting Policies

(a) Investments

MUNI and SFMRIC record investments at fair value with changes in fair value recorded as a component of interest income.

(b) Fixed Assets

Fixed 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 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. Depreciation of assets acquired with MUNI and/or SFMRIC funds is distinguished from depreciation of assets acquired with capital grants and contributions by others.

(Continued)

(dollars in thousands)

(c) *Construction in Progress*

Construction in progress consists of the following projects as of June 30, 2000 and 1999:

		2000	1999
Light Rail Vehicles	$	82,469	16,207
F Embarcadero Extension		—	37,174
Automatic Train Control System		56,121	57,897
Articulated Trolley Coaches		48,013	19,613
Wood Division Renovation		11,162	—
Others		48,032	46,267
	$	245,797	177,158

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

(d) *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.

(e) *Capital Grants and Contributions*

Capital grants and contributions from external sources are recognized as contributed capital at the time reimbursable expenditures related to the grants are incurred. Depreciation of contributed capital is based on the depreciation recognized on the related assets.

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.

(f) *Operating Assistance Grants*

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

(Continued)

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.

(g) Transit Impact Development Fees

Transit impact development fees 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 non-operating 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.

(h) General Fund Support

General fund support is received from the City to subsidize MUNI's operating deficits. The annual amount is determined by the City during the budgetary process, and approximates budgeted expenditures less budgeted revenues.

(i) Statement of Cash Flows

Cash and cash equivalents include all highly liquid investments, including restricted deposits, with an original maturity at time of purchase of three months or less.

(j) Use of Estimates

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

(k) Reclassifications

Certain reclassifications have been made to the 1999 financial statements to conform to the June 30, 2000 presentation.

(Continued)

(dollars in thousands)

(3) Reserved Retained Earnings

Calculation of reserved retained earnings as of June 30, 2000:

Restricted assets:		
Deposits and investments with City Treasury	$	60,889
Deposits and investments outside City Treasury		6,811
Grants and other receivables		5,312
Total restricted assets		73,012
Less:		
Bond construction funds		(5,395)
Liabilities payable from contract retention deposits		(1,002)
Reserved retained earnings	$	66,615
Total retained earnings	$	101,666
Less:		
Reserved retained earnings as calculated above		66,615
Unreserved retained earnings	$	35,051

(4) Deposits and Investments

MUNI and SFMRIC maintain a significant portion of their deposits and investments as part of the City's pool of deposits and investments. The 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, 2000 and 1999, MUNI and SFMRIC's unrestricted deposits and investments were $26,817 and $5,064, respectively, and the carrying amount of MUNI and SFMRIC's time and demand deposits was $141 and $153, respectively, with a corresponding bank balance of $14 and $65, 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)

The restricted assets' deposits and investments outside the City Treasury are held by a trustee. As of June 30, MUNI and SFMRIC had deposits and investments with the trustee as follows:

		2000	1999
Cash and cash equivalents	$	6,811	53
Investments		—	8,522
Total	$	6,811	8,575

(5) 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, 2000 and 1999, no bonds were outstanding under the TIP.

(6) Employees' Retirement Plan

(a) Plan Description

The City has a single-employer defined benefit retirement plan (the Plan) which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The Plan covers substantially all full-time employees of MUNI along with other employees of the City. The Plan provides basic service 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 is 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 supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Ave., Suite 3000, San Francisco, CA 94102, or by calling (415) 487-7020.

(b) Funding Policy

Contributions are made to the basic plan by both MUNI and its employees. Employee contributions are mandatory. Employee contribution rates for 2000 and 1999 were between 7% and 8% as a percentage of covered payroll. MUNI is required to contribute at an actuarially determined rate. No MUNI contributions were required for 2000 and 1999 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 $14,784, $13,262 and $12,360 for the years ended June 30, 2000, 1999 and 1998, respectively, which were equal to the required employee contributions for those years.

(7) 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.

In accordance with GASB No. 32, the deferred compensation plan assets pertaining to the City's plan are not included in the City's financial statements.

(8) Healthcare Benefits

Healthcare benefits for employees, retired employees, and surviving spouses (beneficiaries) are financed by beneficiaries and by the City through the Health Service System of the City. The contribution for all of the City's fund groups are determined by charter provision based on similar contributions made by the 10 most populous counties in California. The costs to MUNI for the years ended June 30, 2000 and 1999 were $24,842 and $21,450, respectively, including $2,813 and $3,338, respectively, to provide postretirement healthcare benefits for retired employees. The City's liability for postretirement healthcare benefits is limited to its annual contribution.

(9) Peninsula Corridor Joint Powers Board

The City is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), along with the Santa Clara Valley Transportation Authority and the San Mateo County Transit District. 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 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.

(10) 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, MUNI is self-insured for workers' compensation claims. The respective liabilities represent an estimate of the costs of all outstanding claims and incurred but not reported claims.

The unpaid claims liabilities for general liability and auto liability, and public transportation bus and light rail liabilities are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

(Continued)

(dollars in thousands)

Changes in the balances of claims liabilities for the two years ended June 30, 2000 and 1999 are as follows:

		2000	1999
Unpaid claims, beginning of fiscal year	$	86,517	71,486
Incurred claims and changes in estimates		31,736	44,949
Claims payments		(24,610)	(29,918)
Unpaid claims, end of fiscal year	$	93,643	86,517

		2000	1999
Accrued workers' compensation	$	63,345	61,065
Estimated claims payable		30,298	25,452
	$	93,643	86,517

Total workers' compensation expense included in personal services expenses in the accompanying consolidated financial statements was $21,833 and $32,942 for the years ended June 30, 2000 and 1999, respectively.

(11) Transactions with the City

It is the City's policy to fund operating deficits of MUNI on a budgetary basis. However, the amount of the operating subsidy provided to MUNI each year is limited to the amount budgeted by the City. Therefore, MUNI does not accrue for unfunded budget operating deficits, but rather recognizes the subsidy as revenue in the year in which it is received. At times, a budget deficit can be caused by revenue shortfalls 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.

(dollars in thousands)

Although the accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles (GAAP), the required contribution from the City's General Fund to fund any operating deficit is calculated on a budgetary basis. The following is a reconciliation of MUNI's net loss on a GAAP basis as reflected in these consolidated financial statements to those amounts used to calculate the General Fund contribution:

		2000	1999
Net loss of MUNI and SFMRIC on a GAAP basis	$	(32,877)	(42,759)
Net income of SFMRIC before capital assistance to MUNI on a GAAP basis		(194)	(265)
Operating subsidy from the City General Fund		(90,720)	(69,746)
Net loss of MUNI (excluding SFMRIC) on a GAAP basis before operating subsidy		(123,791)	(112,770)
Expenses which require budgetary funding but are not GAAP basis expenses:			
Capitalized services and other asset purchases		(168,126)	(137,206)
Change in encumbrances and appropriation carryforwards		(16,535)	(3,842)
Expenses which do not require budgetary funding but are GAAP basis expenses:			
Assets acquired with funding from capital grants and contributions		158,875	136,055
Depreciation expense (net of depreciation of assets acquired with external funds)		45,908	32,303
Other expenses		12,949	15,714
Net loss of MUNI requiring subsidy on a budget basis	$	(90,720)	(69,746)

The operating subsidy from the City General Fund reflected above includes a revenue transfer of $4,029 and $2,075 to fund additional interest expense for the years ended June 30, 2000 and 1999, respectively, that was recorded relating to the overdraft with the City Treasurer.

(dollars in thousands)

(12) 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, 2000, MUNI had approved capital grants with unused balances amounting to $432 million. Capital grants receivable as of June 30, 2000 totaled $28.4 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, 2000, MUNI had various operating grants receivable of $20.9 million.

The capital and operating grants identified above include funds received from the San Francisco County Transportation Authority (SFCTA). During the fiscal year ended June 30, 2000, new capital grants were approved by SFCTA in the amount of $60.8 million and payments received by MUNI for capital grants totaled $47.9 million. As of June 30, 2000, MUNI had funds due from SFCTA for capital grants in the amount of $11.1 million. Similarly, MUNI receives operating grants from SFCTA. During the fiscal year ended June 30, 2000, SFCTA approved new operating grants in the amount of $13.0 million and payments received by MUNI totaled $12.8 million. As of June 30, 2000, MUNI had funds due from SFCTA for operating grants in the amount of $2.3 million.

(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 various properties for use as office space, fleet storage space and machine shops under lease agreements that expire at various dates through 2005. These agreements are accounted for as operating leases. Rent expense was $2,033 and $1,428 for the years ended June 30, 2000 and 1999, respectively.

Minimum future annual rental payments under these lease agreements are as follows:

Year ending June 30:		
2001	$	1,456
2002		1,495
2003		1,665
2004		2,133
2005		2,758
Total	$	9,507

(dollars in thousands)

(c) *Other Commitments*

MUNI has outstanding commitments of approximately $205,114 with third parties for various capital projects. Grant funding is available for the majority of this amount. MUNI also has outstanding commitments of approximately $10,543 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, 2000 are as follows:

Tank Cleanup	$	35
FTA Section 9 Matching		55
MUNI Metro Accessibility Improvements		18
FTA Section 23 Matching		92
Diesel Bus Rehabilitation		43
MUNI Metro Extension/F - Embarcadero Connection		500
Central Control and Revenue Center		150
Steuart and Mission Foundation Work		160
Rail Replacement Program		1,369
Islais Creed Storage and Maintenance Facility		1,045
FY 94 Local Match 90-0674		229
	$	3,696

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 results of operations.

SUPPLEMENTAL SCHEDULES

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Supplemental Schedule – Consolidating Balance Sheet

June 30, 2000
(in thousands)

Assets	MUNI	SFMRIC	Eliminations	Consolidated
Current assets:				
Deposits and investments with City Treasury	$ 26,717	—	—	26,717
Deposits and investments outside City Treasury	100	—	—	100
Receivables:				
Grants	35,917	—	—	35,917
Due from the San Francisco County Transportation Authority	13,382	—	—	13,382
Charges for services, net	4,326	—	—	4,326
Other	1,333	—	—	1,333
Total receivables	54,958	—	—	54,958
Due from other funds	1,361	—	(1,361)	—
Inventories	28,609	—	—	28,609
Deferred charges	24	—	—	24
Total current assets	111,769	—	(1,361)	110,408
Restricted assets:				
Deposits and investments with City Treasury:				
Transit Impact Development Fee	59,992	—	—	59,992
Other restricted investments	897	—	—	897
Deposits and investments held outside City Treasury – cash and cash equivalents	—	6,811	—	6,811
Interest receivable	—	17	—	17
Transit Impact Development Fee receivable, net	5,295	—	—	5,295
Total restricted assets	66,184	6,828	—	73,012
Fixed assets:				
Land	18,537	—	—	18,537
Ways and structures	833,394	—	—	833,394
Equipment	525,488	—	—	525,488
Construction in progress	245,797	—	—	245,797
Total fixed assets	1,623,216	—	—	1,623,216
Less accumulated depreciation and amortization	(442,136)	—	—	(442,136)
Net fixed assets	1,181,080	—	—	1,181,080
	$ 1,359,033	6,828	(1,361)	1,364,500

(Continued)

SAN FRANCISCO MUNICIPAL RAILWAY AND
SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Supplemental Schedule – Consolidating Balance Sheet

June 30, 2000
(in thousands)

Liabilities, Equity and Retained Earnings	MUNI	SFMRIC	Eliminations	Consolidated
Current liabilities:				
Accounts payable and accrued expenses	$ 23,360	—	—	23,360
Accrued payroll	17,007	—	—	17,007
Accrued vacation and sick leave	10,760	—	—	10,760
Accrued workers' compensation	16,569	—	—	16,569
Estimated claims payable	10,686	—	—	10,686
Deferred revenues and other deferred credits	6,260	—	—	6,260
Due to other funds	—	1,361	(1,361)	—
Total current liabilities	84,642	1,361	(1,361)	84,642
Liabilities payable from restricted assets	930	72	—	1,002
Long-term liabilities:				
Accrued vacation and sick leave	8,379	—	—	8,379
Accrued workers' compensation	46,776	—	—	46,776
Estimated claims payable	19,612	—	—	19,612
Deferred revenues and other deferred credits	305	—	—	305
Total long-term liabilities	75,072	—	—	75,072
Total liabilities	160,644	1,433	(1,361)	160,716
Equity and retained earnings:				
Contributed capital	1,102,118	—	—	1,102,118
Retained earnings:				
Reserved	61,220	5,395	—	66,615
Unreserved	35,051	—	—	35,051
Total equity and retained earnings	1,198,389	5,395	—	1,203,784
	$ 1,359,033	6,828	(1,361)	1,364,500

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY AND SAN FRANCISCO MUNICIPAL RAILWAY IMPROVEMENT CORPORATION

Supplemental Schedule – Consolidating Statement of Operations and Changes in Equity

Year ended June 30, 2000
(in thousands)

	MUNI	SFMRIC	Eliminations	Consolidated
Operating revenues:				
Passenger fares	$ 101,310	—	—	101,310
Advertising	8,371	—	—	8,371
Paratransit revenue	765	—	—	765
Charter bus	11	—	—	11
Rental income	56	—	—	56
Other	684	—	—	684
Total operating revenues	111,197	—	—	111,197
Operating expenses:				
Personal services	300,295	—	—	300,295
Contractual services	20,107	142	—	20,249
Materials and supplies	37,797	—	—	37,797
Depreciation	45,908	—	—	45,908
Services from other city departments	14,278	—	—	14,278
General and administrative	17,012	—	—	17,012
Other operating expenses	5,400	—	—	5,400
Total operating expenses	440,797	142	—	440,939
Operating loss	(329,600)	(142)	—	(329,742)
Nonoperating revenues (expenses):				
Operating assistance:				
Department of Parking and Traffic	103,635	—	—	103,635
Federal	16,923	—	—	16,923
State	24,399	—	—	24,399
Other grants	44,884	—	—	44,884
Transit impact development fees, net of expense	4,689	—	—	4,689
Capital reserve expense, net	87	—	—	87
Interest income	3,998	336	—	4,334
Interest expense	(1,529)	—	—	(1,529)
Loss on disposal of fixed assets	11	—	—	11
Capital assistance of SFMRIC to MUNI	2,323	(2,323)	—	—
Other, net	848	—	—	848
Net nonoperating revenues (expenses)	200,268	(1,987)	—	198,281
Net loss before operating transfers	(129,332)	(2,129)	—	(131,461)
Operating transfers in:				
City and County of San Francisco – General Fund	90,720	—	—	90,720
San Francisco County Transportation Authority	9,636	—	—	9,636
Other funds	628	—	—	628
Total operating transfers in	100,984	—	—	100,984
Operating transfers out	(2,400)	—	—	(2,400)
Total operating transfers, net	98,584	—	—	98,584
Net loss	(30,748)	(2,129)	—	(32,877)
Capital grants and contributions	158,875	—	—	158,875
Equity, beginning of year	1,070,262	7,524	—	1,077,786
Equity, end of year	$ 1,198,389	5,395	—	1,203,784

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, 2000
(in thousands)

	Authorized grants as of July 1, 1999	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2000	Amounts not expended as of June 30, 2000	Grants receivable as of June 30, 2000 (1)
Capital grants:							
31 Balboa Construction	$ 1,889	—	(591)	—	1,298	(1,163)	135
Construct Islais Creek	—	2,467	—	—	2,467	(2,467)	—
LRV Purchase	785	80,445	(31,525)	—	49,705	(44,027)	5,678
New Start – Station/Term	853	(999)	146	—	—	—	—
Section 9 FY 1987/88	858	—	(665)	—	193	(191)	2
Section 9 FY 1989/90	22	—	—	—	22	(22)	—
Section 9 FY 1990/91	844	—	(201)	—	643	(635)	8
Section 9 FY 1991/92	12,275	—	(12,275)	—	—	—	—
Section 9 FY 1992/93	461	—	(4)	—	457	(457)	—
Section 9 FY 1993/94	3,584	—	(2,694)	—	890	(878)	12
Section 9 FY 1994/95	21,159	—	(12,975)	—	8,184	(6,775)	1,409
Section 9 FY 1995/96	31,840	28,171	(20,014)	—	39,997	(37,769)	2,228
Section 9 FY 1997/98	—	131,103	(8,491)	—	122,612	(121,039)	1,573
Section 9 FY 1998/99	—	79,372	(1,557)	—	77,815	(76,127)	1,688
Trolley Coach Replacement	15,623	—	(15,623)	—	—	—	—
Total capital grants	$ 90,193	320,559	(106,469)	—	304,283	(291,550)	12,733
Operating grants:							
Operating assistance	$ 3,487	8,200	(3,487)	—	8,200	—	8,200
SRTP-CPT432	—	82	—	—	82	(39)	43
Federal Disaster Relief – Earthquake (FEMA):							
FEMA – Geneva Building Demolition	—	137	(102)	—	35	(35)	—
FEMA – Woods Renovation	—	313	(274)	—	39	—	39
Total operating grants	$ 3,487	8,732	(3,863)	—	8,356	(74)	8,282

(1) The grant receivable balances are for selected projects, and will not agree to the total grants receivable balance on MUNI's June 30, 2000 consolidated balance sheet.

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, 2000
(in thousands)

	Authorized grants as of July 1, 1999	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2000	Amounts not expended as of June 30, 2000	Grants receivable as of June 30, 2000 (1)
Capital grants:							
Automatic Train Control System	$ 3,182	—	(3,084)	—	98	(96)	2
F-Market Street Thoroughfare	2,463	—	—	—	2,463	(2,463)	—
F-Market/Embarcadero Extension	5,551	—	(5,551)	—	—	—	—
Maintenance Shop Facility Improvements	3,204	—	(2,328)	—	876	(876)	—
Metro Access Improvement	720	—	(99)	—	621	(365)	256
Muni Metro Extension	2,481	—	—	—	2,481	(2,481)	—
Trolley Bus Purchases	—	8,319	(56)	—	8,263	(8,263)	—
TSM-TRANSLINK, etc.	968	—	—	—	968	(519)	449
MMT-Extra Cost	—	1,140	—	—	1,140	—	1,140
Total capital grants	$ 18,569	9,459	(11,118)	—	16,910	(15,063)	1,847

(1) The grant receivable balances are for selected projects, and will not agree to the total grants receivable balance on MUNI's June 30, 2000 consolidated balance sheet.

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, 2000
(in thousands)

	Authorized grants as of July 1, 1999	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2000	Amounts not expended as of June 30, 2000	Grants receivable as of June 30, 2000 (1)
Capital grants:							
Bridge toll:							
40FT Bus Replacement	$ —	2,731	—	—	2,731	(2,731)	—
Accessible Vans	—	407	—	—	407	(407)	—
Cable Car Renovation	—	—	—	—	—	—	—
Diesel Bus Purchase	391	—	—	—	391	(159)	232
F-Embarcadero Extension	3,504	—	(2,880)	—	624	—	624
Local Match to Federal Section 9 FY90/91	57	—	—	—	57	(5)	52
Local Match to Federal Section 9 FY91/92	430	—	(25)	—	405	(405)	—
Local Match to Federal Section 9 FY94/95	295	—	(171)	—	124	(124)	—
MMX to F Line connection	175	—	—	—	175	(175)	—
Rail Replacement	1,386	—	(325)	—	1,061	(888)	173
Trolley Bus Replacement	—	1,660	—	—	1,660	(1,660)	—
Trolley Bus Purchase	3,376	—	—	—	3,376	(3,376)	—
Trolley Overhead Construction	1,106	—	(12)	—	1,094	(933)	161
Trolley Overhead Reconstruction	419	—	—	—	419	(419)	—
Woods Annex-Islais Creek	400	—	(264)	—	136	—	136
Total capital grants	$ 11,539	4,798	(3,677)	—	12,660	(11,282)	1,378
Operating grants:							
AB1107 Sales Tax	$ 10,010	22,637	(25,102)	—	7,545	—	7,545
State Transit Assistance	—	8,498	(8,498)	—	—	—	—
Transportation Development Act	—	30,131	(30,131)	—	—	—	—
Total operating grants	$ 10,010	61,266	(63,731)	—	7,545	—	7,545

(1) The grant receivable balances are for selected projects, and will not agree to the total grants receivable balance on MUNI's June 30, 2000 consolidated balance sheet.

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, 2000
(in thousands)

	Authorized grants as of July 1, 1999	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2000	Amounts not expended as of June 30, 2000	Grants receivable as of June 30, 2000 (1)
Capital grants:							
3rd Street Light Rail-Preliminary Design	$ —	35,395	(4,499)	233	31,129	(27,551)	3,578
Alternative Fuel Demo	—	3,168	—	—	3,168	(3,168)	—
Articulated Trolley Bus Purchase	16,241	—	(1,102)	—	15,139	(15,047)	92
Bus Stop Improvements	312	—	(123)	—	189	(189)	—
Diesel Bus Purchase	15,695	7,792	(12,243)	—	11,244	(10,156)	1,088
Diesel Bus Rehabilitation	3	—	(3)	—	—	—	—
F Embarcadero Extension	11,887	4,100	(4,887)	—	11,100	(7,845)	3,255
Facilities Rehabilitation and Improvement	1,289	2,486	(258)	—	3,517	(3,383)	134
Financial Capacity Study	240	—	—	—	240	(240)	—
Fleet Plan Update	118	—	—	—	118	(118)	—
F-Market PCC Rehabilitation	637	—	(133)	(504)	—	—	—
F-Market Transit Thoroughfare	28	—	(24)	—	4	(4)	—
Forest Hill Seepage and Seismic	103	35	(83)	—	55	(26)	29
Geneva Building Demolition	—	313	(45)	—	268	(224)	44
Land Acquisition – 700 Pennsylvania	1,261	—	(1,261)	—	—	—	—
LRV Modification	551	—	(454)	—	97	(95)	2
LRV Purchase	27,920	—	(12,655)	—	15,265	(13,957)	1,308
Major Transit Corridor	1,804	1,732	(2,945)	(233)	358	(265)	93
Metro Access Improvements	663	—	(267)	—	396	(276)	120
Metro East LRV Facility	1,354	—	(1,354)	—	—	—	—
Muni Metro Turnback	6,285	—	(695)	—	5,590	(5,590)	—
Rail Replacement/Maintenance Equipment	1,901	—	(378)	—	1,523	(1,282)	241
Rail/OH Infrastructure Study	62	—	—	—	62	(62)	—
Signal Preemption	72	—	(70)	—	2	—	2
Streetcar Rehabilitation	—	504	(52)	—	452	(106)	346
Trolley Overhead Reconstruction	484	—	(55)	—	429	(429)	—
Wood/Potrero Roof Replacement	2,650	963	(2,129)	—	1,484	(1,315)	169
Woods Division Renovation	3,027	4,143	(2,166)	—	5,004	(4,409)	595
Woods Seismic Study	—	207	(9)	—	198	(194)	4
Total capital grants	$ 94,587	60,838	(47,890)	(504)	107,031	(95,931)	11,100

(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, 2000
(in thousands)

	Authorized grants as of July 1, 1999	New grants approved	Payments received	Expired/ rescinded grants	Authorized grants as of June 30, 2000	Amounts not expended as of June 30, 2000	Grants receivable as of June 30, 2000 (1)
Operating grants:							
F-Line Operations and Maintenance	$ 303	979	(1,263)	—	19	—	19
Graffiti Preventions	11	—	—	—	11	(11)	—
Grant Section Staffing	238	—	(169)	—	69	(9)	60
Muni Metro Extension Operations and Maintenance	752	6,424	(5,884)	—	1,292	—	1,292
Paratransit Contract	814	5,494	(5,448)	—	860	—	860
Transit Preferential Streets	25	124	(59)	—	90	(39)	51
Trolley Bus Lifts Operations and Maintenance	86	—	—	—	86	(86)	—
Total operating grants	$ 2,229	13,021	(12,823)	—	2,427	(145)	2,282

(1) The grant receivable balances are for selected projects, and will not agree to the total grants receivable balance on MUNI's June 30, 2000 consolidated balance sheet.

See accompanying independent auditors' report.